



## Paychex Section 125

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Paychex is an industry leader in employee benefits:

- Offering section 125 plans for clients since 1991.
- Administering section 125 plans for over 43,000 clients.
- Providing comprehensive administration with the option of seamless payroll integration.

*The Paychex FSA provides small businesses with a “big business” benefit that creates happier employees – employees who are loyal, responsible assets to an organization. Our team members do a better job for our clients and our company when they feel supported.*

*– Jeff Morris  
Director, Salon Operations*



## Section 125: The Win-Win Option

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**Premium Only Plan (POP)** – allows employees to pay for premiums on a pretax basis for group term life, health, and dental insurances.

**Flexible Spending Account (FSA)** – a budgeting tool; allows employees to pay for out-of-pocket health and dependent care expenses with pretax dollars.

### **Sample expenses covered by FSA:**

- Health insurance deductible & co-payments
- Annual physicals
- Dental check-ups/orthodontia
- Contact lenses & solutions
- Prescriptions
- Over-the-counter items (for medical care)
- Hearing aids
- Chiropractic services
- Drug/alcohol dependency treatment
- Smoking cessation program
- Lasik eye surgery



# Employer Benefits

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- Provides pretax savings:
  - ✓ Insurance premiums (POP)
  - ✓ Unreimbursed medical & dental expenses (FSA)
  - ✓ Dependent care expenses (FSA)
- Gives ability to offer additional benefits.
- Optional contributions provide ability to offset other benefit costs.
- Controls the cost of employer benefits via pretax savings.
- Enhances the benefit package for multi-state employers.
- Lower payroll taxes.



# Employee Benefits

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- Additional benefit offering.
- Budgeting tool for out-of-pocket expenses not covered by conventional benefits:
  - ✓ Insurance premiums (POP)
  - ✓ Unreimbursed medical & dental expenses (FSA)
  - ✓ Dependent care expenses (FSA)
- High morale among participants.
- Employer may make contributions.
- Convenient management of FSA via secure Web site and toll-free information line:
  - ✓ Paychex Online – <https://benefits.paychex.com>
  - ✓ Information Line – 1-877-244-1771



# Example of Tax Savings

	Without 125 Benefit	With 125 Benefit
<b>Total Monthly Pay (\$3,750) Less:</b>		
Insurance Premiums	0	-\$200
Medical/Dental Expenses <sup>1</sup>	0	-75
Childcare Expenses <sup>2</sup>	0	-300
<b>Less Deductions</b>		
Federal & State Taxes <sup>3</sup>	-1,050	-889
Social Security Tax	-287	-243
<b>After-Tax Income</b>	<b>\$2,413</b>	<b>\$2,043</b>
<b>After-Tax Expenses</b>		
Insurance Premium	-200	0
Medical/Dental Expenses	-75	0
Childcare Expenses <sup>4</sup>	-300	0
<b>Spendable Income</b>	<b>\$1,838</b>	<b>\$2,043</b>
<b>Monthly Income Increases</b>		<b>\$205</b>
<b>Annual Income Increases</b>		<b>\$2,460</b>

<sup>1</sup> FSA contributions for medical/dental expenses.

<sup>2</sup> FSA contributions for childcare expenses.

<sup>3</sup> Assumes combined federal and state tax rate of 28%.

<sup>4</sup> Does not include any available tax credit for childcare expenses.



# Flexible Spending Account Claims Process

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The FSA debit card helps employees avoid out-of-pocket expenses and eliminates the need to file any paper claims. As an alternative, employees use the online or paper claim submission process.

## *Paychex Responsibilities*

- Review and process all FSA claim requests in the order they are received.
  - ✓ Approved claims are processed on a daily basis.
  - ✓ Reimbursements are made by check or direct deposit.
  - ✓ Notices are provided via e-mail for debit card transactions as well as bank account withdrawals.
- Provide employer with *Employee Account Balance* and *Check Register* reports when claims are processed.
- Provide reminder letters to participants regarding account balances.



# Paychex Section 125 Compliance Services

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- Payroll integration.
- Plan document, summary plan description, and adoption agreement.
- Toll-free access to section 125 support team.
- Compliance testing.
- Regular employer and participant reports on FSA account status.
- Administrative Guidebook.
- Paychex Online Flexible Spending Account and Flexible Spending Account Information Line provide participants easy access to their FSA information.
- Paychex FSA debit card available to help increase employee ease-of-use and convenience.



# FSA Self-Service

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Through a secure Web site:

- Enroll in or make changes to an existing FSA.
- View account balances.
- Submit and manage reimbursements.
- Access forms and useful information.

Web Address

<https://benefits.paychex.com>



# Participant Reminder Letter

## **PAYCHEX**

1175 John Street  
West Henrietta, New York 14586

November 19, 2008

EMPLOYEE NINE  
301 25TH STREET  
WATERVLIET, NY 12189

Dear EMPLOYEE NINE:

Periodically, it is a good idea to review the status of your Flexible Benefit Accounts. For your convenience, we have summarized the activity in your accounts as of 05/16/08 for the 2008 plan year:

YEAR-TO-DATE STATUS	Claims Submitted	Claims Paid	Contributions	Account Balance	Available Credit
<i>FSA DEPENDENT CARE</i>	\$200.00	\$200.00	\$600.00	\$400.00	\$400.00
Annual Election:	\$2,400.00				
Deduction Amount:	\$100.00	Pretax			
Deduction Frequency:	Semi-Monthly				
<i>FSA UNREIMBURSED MEDICAL/DENTAL</i>	\$300.00	\$300.00	\$423.06	\$123.06	
Annual Election:	\$1,000.00				

If you have any questions, a Section 125 specialist is available at 1-800-472-0072.

Section 125 Plans  
Paychex Human Resource Services

Branch/Client: 0095-L115 FSA TEST CLIENT  
 Organization Type: Corporation  
 Plan Effective Date: 03/01/1996

## Section 125 Compliance Test



**Compliance Test Summary:**

25% Key Employee Test:	<u>Current</u> In Compliance	<u>Proposed</u> In Compliance
55% Average Benefits Test:	In Compliance	In Compliance
25% Owners Test:	In Compliance	In Compliance

Emp. No.	Name Social Security No.	Transaction Period	Category	Current Per Pay	Proposed Per Pay	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year-to-Date
2	DOE, JOHN 254-54-1230									
	Health	01/01/2008 to Present	Pre-Tax	42.69	42.69	554.97	554.97	554.97	298.83	1,963.74
	Unreimbursed Medical	01/01/2008 to Present	Pre-Tax	19.00	19.00	247.00	247.00	247.00	133.00	874.00
				61.69	61.69	801.97	801.97	801.97	431.83	2,837.74
79	LONG, BOB 201-46-6272									
	Dependent Care	01/01/2008 to Present	Pre-Tax	96.15	96.15	1,249.95	1,249.95	1,249.95	673.05	4,422.90
	Unreimbursed Medical	01/01/2008 to Present	Pre-Tax	19.23	19.23	444.99	444.99	444.99	109.23	1,444.20
				115.38	115.38	1,694.94	1,694.94	1,694.94	782.28	5,867.10
0	RIDE, SALLY 079-38-5687									
	Dependent Care	01/01/2008 to Present	Pre-Tax	96.15	96.15	1,249.95	1,249.95	1,249.95	673.05	4,422.90
	Unreimbursed Medical	01/01/2008 to Present	Pre-Tax	25.00	25.00	325.00	325.00	325.00	175.00	1,150.00
				121.15	121.15	1,574.95	1,574.95	1,574.95	848.05	5,572.90
	SMITH, JIM 111-22-3344									
	Unreimbursed Medical	01/01/2008 to Present	Pre-Tax	10.00	10.00	130.00	130.00	130.00	70.00	460.00
				10.00	10.00	130.00	130.00	130.00	70.00	460.00
61	THOMAS, BRUCE 230-45-4560									
	Dependent Care	01/01/2008 to Present	Pre-Tax	80.00	80.00	1,040.00	1,040.00	1,040.00	560.00	3,680.00
				80.00	80.00	1,040.00	1,040.00	1,040.00	560.00	3,680.00
	<b>Total for all Employees:</b>			388.22	388.22	5,241.86	5,241.86	5,241.86	2,692.16	18,417.74

Branch/Client: 0095-L115 FSA TEST CLIENT  
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Emp. No.	Name Social Security No.	Transaction Period	Category	Current Per Pay	Proposed Per Pay	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year-to-Date
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### 25% Key Employee Test

The non-taxable benefits provided to key employees must not exceed 25% of such benefits provided to all employees under the plan. The summary below provides the contributions of Key and non-Key employees. Please refer to the Section 125 Plan Administration Instructional Packet for more details.

			<u>Current</u>	<u>Proposed</u>
YTD Key Contributions:	0.00	Year-End Estimate Key Contributions:	0.00	0.00
YTD Non-Key Contributions:	18,417.74	Year-End Estimate Non-Key Contributions:	22,721.13	22,721.13

### 55% Average Benefits Test

The average Dependent Care benefits provided to all non-HCEs must equal or exceed 55% of the average Dependent Care benefits received by the HCEs. The summary below provides the contributions of HCE and non-HCE employees. Please refer to the Section 125 Plan Administration Instructional Packet for more details.

				<u>Current</u>	<u>Proposed</u>		
Number of HCEs:	5	YTD HCE Contributions:	0.00	Year-End Estimate HCE Contributions:	0.00	0.00	Average HCE Contribution: 809.07
Number of NHCEs:	32	YTD NHCE Contributions:	12,525.80	Year-End Estimate NHCE Contributions:	14,239.60	14,239.60	Average NHCE Contribution: 444.99
		HCE = Highly Compensated Employee					NHCE = Non-Highly Compensated Employee

### 25% Owners Test

The Dependent Care benefits provided to Owners must not exceed 25% of the Dependent Care benefits received by non-Owners. The summary below provides the contributions of Owners and non-Owners. Please refer to the Section 125 Plan Administration Instructional Packet for more details.

			<u>Current</u>	<u>Proposed</u>
YTD Owner Contributions:	0.00	Year-End Estimate Owner Contributions:	0.00	0.00
YTD Non-Owner Contributions:	12,525.80	Year-End Estimate Non-Owner Contributions:	14,239.60	14,239.60

## Pricing

- Monthly Administration Fee: \$110/m
- Monthly Participant Fee: \$2.25 per Participant @ 121 ee's = \$272.25 /m
  
- Total Annual Cost= \$4,587
- One Time Set Up Fee: \$1150

**QUESTIONNAIRE**

All interested parties must complete the following questions in this exhibit and return with your response. If a particular question does not apply, type "NA" after restating the question.

1. What is the full name of your company? Paychex Inc
2. How long has your organization been providing FSA Administration? 20 Years
3. How long in the State of Florida? 20 years
4. How many clients have you provided FSA Administration for the following lengths of time?
  - a. 1 – 2 Years \_\_\_\_\_
  - b. 2 – 3 Years \_\_\_\_\_
  - c. 4 or more Years \_\_\_\_\_
5. For how many employers do you contract this service?
6. Describe your requirements for spending account funding. Paychex will send a check using the business bank account to the Plan Administrator for signature unless a laser signed check is preferred to be sent to the employee's home. For Debit Card and Direct Deposit, Paychex will notify via email the Plan administrator when funds are required. Emails are sent every day at 4pm for those clients that have an employee with a request for reimbursement via Direct Deposit or Debit Card.
7. How many representatives are assigned to communicate with client benefit staff and respond to problems and where are their offices located? Over 200 representatives are staffed to assist employees and employers from 8am to 8pm Eastern Time. Offices are located in Rochester NY
8. Does your company provide 24 hour online access to account information, claims status and activity for client and participants? For Participants, yes.
9. Briefly describe your processes for reimbursing eligible out of pocket expenses. If receipts are sent requesting a check reimbursement Paychex would review the claims in 2 business days or less and Paychex system will prepare a check or direct deposit the following day. If Debit Card was used and claim was able to be auto substantiated then nothing more is required. If debit card is used and claim was not able to be auto substantiated then email is sent to employee asking for documentation.
10. Does your company accept faxed copies of claims? Yes.
11. What claims documentation will your company require from a participant in order to pay a claim? Dependent upon claim. Paychex follows IRS guidelines in regards to claims adjudication.
12. How are participants notified when a claim has been denied or a card usage is disputed? For debit card participants email is sent. For employees that prefer paper claim, letter is sent in the mail.

13. Please explain how your company's system will adjudicate claims. Include the following:
  - a. Does your company have a minimum claim reimbursement amount? No.
  - b. Is there a system check for duplicate claims? Yes, our system will ask specialist to verify any claim amount that matches another claim submitted by the employee.
  - c. How are incomplete claims communicated? See 12.
14. Will participants have the option to receive their reimbursements via check or direct deposit? Yes.
15. Does your company process and disburse claim payments on a daily basis? Are claims paid within 10 business days with most of the claims being paid within 2-5 business days? If not, please explain the time period for your company's reimbursements. See #9.
16. Does your company resolve all servicing issues related to FSA's including check issuance and/or direct deposit? Explain this process. Paychex issues a check on Paychex paper stock but the bank account belongs to our client.
17. What customer service standard of time is used for responding to participant inquiries? Same day, next business day, within 24 hours, etc. Generally one business day but dependent upon status of inquiry.
18. Where are your company's customer service and claims departments located? Rochester NY
19. Do you offer a debit card? If yes, describe how you comply with IRS guidance and regulations regarding electronic payment cards. Yes, Paychex uses a debit card vendor who uses the IIAS system. If a claim is not able to be automatically adjudicated electronically Paychex sends notice to the employee. If the employee has unsubstantiated claims for 45 days the debit card is inactivated.
20. Is there an extra fee for the debit card? No.
21. Does a minimum participation requirement apply? No
22. Will you have staff be available to attend Open Enrollment Question and Answer sessions even though we have an online enrollment process and is there a fee for this service? No.
23. Describe you company's compliance with HIPAA. Paychex has had a standing rule that clients lists and information are never to leave the company. We do not sell or otherwise divulge our client information to any outside parties without prior consent. Situations that arise requiring prior consent are generally at the behest of our client (ex. CPA requests).
24. How will employee data be maintained in your company's system? Does your company use the participants' social security number or another unique ID number? Paychex uses the employee Social Security number in our system. When employees fill out their

25. What are your company's control standards for payment accuracy (frequency and dollar amount)? How is performance monitored? Paychex has an audit team that oversees the accuracy of each claims processor.
26. Does your company provide balance information such as quarterly statements for the 1st, 2nd, 3rd, and 4th quarters during the plan year for all enrolled participants? Paychex provides balance information on a regular basis to employees as they submit claims. Otherwise, an employee will be reminded that their time is running short in January or February of the following year to allow them to submit receipts by the deadline of 3/31.
27. Does your company provide reports summarizing number/percent of claims that are reimbursed within the contract time frame? How frequently is this report supplied? Paychex can provide a report upon demand called a check History report. This will assist in reconciling items on the account such as checks and direct deposits.
28. Following the end of the plan year, how and when does your company provide notification regarding any forfeiture? Forfeiture letters are sent in Early June after the claims deadline of 3/31 and the dispute period of 5/15 has passed.
29. Does your company administer the FSA accounts directly or do you hire a sub contractor for the administration? Directly.
30. Does your company develop with the employer the data exchange layout for the transmission of payroll deduction and eligibility information? Does your company receive and process payroll deduction and eligibility data from the employer via FTP, Secure Email, or hard copy listing? Paychex uses a system that will automatically assume payroll data based upon given frequency. Any employee changes are handled via paper enrollment/change form.
31. Provide a copy of the detailed written disaster and recovery plan for your company.
32. Describe how your company ensures the security of information passed over the Internet or through other electronic transmissions between the vendor, the Client/Employer, and/or participants. Paychex has the availability of using Secure email however this is rarely used for FSA plans as we do not send information of a secure nature via email as a company practice.
33. Does your company accept a file transfer of ongoing enrollments? No.
34. How does your company communicate enrollment problems to the plan sponsor (via fax, email, or telephone)? What is the standard timeframe for resolving enrollment issues? New Enrollments and/or changes are processed within 2 business days. Any issues with an enrollment would be mailed back with a copy of the enrollment form and a letter explaining what other information may be required.

35. In what format (i.e. electronic, paper, fax, etc.) will your company receive notifications of terminated participants? Paper Enrollment/Change form.
36. Does your company provide pre-printed copies of the claim reimbursement forms? Yes.
37. How does your company handle claims that are appealed? Initial call by employee would be given an explanation of why claim was not able to be processed. If employee persists we will refer them back to their company plan administrator.
38. What is the average time frame of the appeals process? Does your company have an appeal's committee? Are the number of appeals along with the appeals outcome reported to the plan sponsor? If so how often? Paychex allows the company Plan administrator to handle any employee appeals and Paychex would then take direction from our client.
39. Please list the standard FSA services included in your company's administrative fee.
40. Does your company provide COBRA notification of rights to employees who have "qualifying events" including which coverage can be continued, premium rates, provider lists (if applicable), and rights under the COBRA laws? No.
41. Does your company send acknowledgement letters (for all COBRA eligible benefits) to employees who have elected continuation of coverage under COBRA, and advise continuants of their coverage eligibility period? See 40
42. Does your company send billings to employees for all eligible benefits, upon receipt of application for continuation of coverage, and terminate as appropriate based on the applicable COBRA benefit eligibility period? No
43. Our goal is for FSA Open Enrollment to run from **December 1 through December 17, 2010** for an effective date of **January 1, 2011**. The proposals will go to the Board of County Commissioners for approval on **November 23, 2010**. if your company's quote is approved on November 23, 2010, can you operate within these timelines and have the accounts active by January 1, 2011? Yes.

Current Paychex Flexible Spending Account Clients

Orthopaedic Surgery & Sports

Patsy Murabito

250 Nat Turner Blvd. Newport News, VA 23606

Phone- 757-596-1444 ext 322

PowerGrid

Michael Wright - President

1341 Sundial Point, Winter Springs, FL 32708

(321) 244-0170

(321) 283-4420 cell

WHEAT RIDGE INTERNAL MEDICINE

7821 West 38th Avenue, Wheat Ridge, CO

JULIE CHAPPELL

303-422-2343 x 00155

Former Paychex FSA Clients

Microtech

Aleya Bartis - HR Generalist

8330 Boone Blvd., Suite 600 Vienna, VA 22182

Tel: 571-730-4032

Fax: 703-891-1074

ABartis@microtech.net

ECOMPEX, Inc.

Amanda Chandler

Office Administrator

7926 Jones Branch Drive, Suite 560, McLean, VA 22102

Tel: 703.288.3382 x1212

Associated Pharmacists

GREG DAVIS - President

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(720) 470-9080