

[Return to Tri-Star Web Site](#)

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in this issue....

- [New Section 125 Cafeteria Plan Guidance Due by June 30, 2006](#)
- [Tri-Star is a Member of the Charter Class of Accredited Service Providers](#)
- [Overview of ECFC's 25th Annual Conference](#)
- [Tri-Star Has Moved Its' St. Louis Office](#)
- [IRS Publication Links](#)
- [How To Contact Us](#)

Editor's Note

In an effort to keep you informed of regulation issues and new developments, we will be sending quarterly issues of our newsletter, **Benefits Briefing**. If there are HR contacts at your company who would benefit from this, please give us their names and email addresses, and we will add them to the distribution list.

New Section 125 Cafeteria Plan Guidance Due by June 30, 2006

A major review of all the Cafeteria Plan (Section 125) regulations has been going on at both the IRS and Treasury. We've been informed by the IRS that the proposed Section 125 regulations, originally released in 1984, and amended several times over the past 20 years, are going to be withdrawn and will be replaced by new proposed regulations. Many of the current laws, regulations, and rulings have overlapping elements that have made the administration of plans quite challenging in some instances. We anticipate that some of the antiquated concepts will be eliminated and that there will be significant clarifications made to the existing proposed regulations. During the recent ECFC meeting, we did learn that there will be no changes to the current "Change in Status and "Change in Cost or Coverage" rules. The IRS also indicated that for the present, they will not be making any changes to the existing nondiscrimination rules for Cafeteria Plans. They did, however, acknowledge that there was a significant need in that area and that they would be working that into the IRS Priority Guidance Report at some time in the future. The target date for completion of the new and/or modified guidance is June 30, 2006.

The IRS and Treasury Departments are working on a number of other regulatory proposals which will have significant impact on cafeteria plans. One of the most pressing issues for the IRS is the HSA Comparability Rule which will likely be finalized within the next two months. Recently, ECFC representatives testified at an IRS Hearing regarding the Comparability Rule. Specific focus was on the importance of allowing employer

contributions through a cafeteria plan to fund a health savings account (HSA). Also, many large and mid-sized employers would like to see clarifications and examples to permit the promotion of wellness and disease management programs without running afoul of nondiscrimination rules. Additionally, the ECFC requested clarification with respect to employers being able to restrict sending funds to a limited number (or one) trustee allowing for simpler implementation of HSA plans.

For some time the IRS has been considering changes to the debit card rules, for both healthcare FSAs and HRAs. Formal approval for utilization of the card for transportation benefits is also being considered. One of the big considerations for the IRS is whether to allow multiples of co-pay amounts and vendor provided approved over-the-counter (OTC) lists in the auto-adjudication process. During the recent ECFC Annual Conference in Orlando, IRS and Treasury officials were very “tight-lipped” about their position on these and other card-related issues as they indicated the release of the guidance was very close. Both, Beth Purcell, esq. (IRS Health & Welfare Branch – Asst. Chief) and Kevin Knopf, esq. (Attorney Advisor for The Department of Treasury) indicated that the closer guidance is to being released, less information about the guidance is able to be disclosed publicly. Like all others in the industry, we’re going to have to wait and see.

Look for specifics on the new guidance and regulations in the next edition of our Benefits Briefing.

[Back to Top](#)

Tri-Star is a Member of the Charter Class of Accredited Service Providers

Tri-Star Systems, home of EzFlex4U has long been a member of The Employers Council on Flexible Compensation (ECFC). Several of our staff have been attending ECFC’s semi-annual conferences and participating in ECFC sponsored teleconferences for many years. We have staff that have been certified both as Certified in Flexible Compensation (CFCs) and Certified in Flexible Compensation Instruction (CFCIs).

Flexible compensation, in its many forms, is constantly changing and growing as new regulations, laws and interpretations affect the discipline. The leading practitioners follow a regular schedule of professional education to keep their skills and knowledge honed to the sharpest edge. Until recently, only individual members were able to be identified as leading practitioners in the industry via ECFC’s certification program.

ECFC has nearly 3000 members which represent plan sponsors, corporations, governmental entities, unions, universities, hospitals and clinics who are leading the way in the development and refinement of cafeteria and retirement plans, as well as the leading actuarial, accounting, insurance, consulting firms, and third-party administrators (TPAs) that design and administer flexible benefit plans. Only about 12 % of these are designated as CFCs or CFCIs.

Over the last year ECFC, with the assistance of The Alliance for Affinity Security, has developed and implemented an accreditation program for service providers. Tri-Star Systems, home of EzFlex4U is pleased to announce that it has been designated as a member of the **Charter Class of Accredited Service Providers**. This is a distinction that only 30 service providers across the country have earned by meeting or agreeing to meet 14 Standards for Accreditation established by The Alliance for Affinity Security.

We're proud to be identified as a service provider that has met and adhered to the high standards developed by ECFC and the Alliance. We will continue to meet the standards of service providers with "best practices" and continue our strong commitment to the employee benefits community and to all of our clients.

[Back to Top](#)

Overview of ECFC's 25th Annual Conference

The theme of the ECFC's Silver Anniversary Conference held March 16–17, 2006 in Orlando was ***New Responsibilities – New Choices! A Crossroads for Employers***. This was a very appropriate theme for this year's conference because most employers, small to large, are truly at a crossroads with respect to providing employee benefits.

Economics and the rising cost of health care continues to put pressure on companies that take a paternalistic approach to benefits. There is increasing pressure in the marketplace to reduce government control on how benefits are provided, while strangely enough there exists a significant amount of pressure to increase government control, at least with respect to the way health care is delivered. Technology is driving the complexity of the manner in which employers and administrators deliver benefits. The digital age with its "I want more information and function, and I want it now" continue to be a significant factor in the overall cost of delivering benefits. Jeffrey Munn of Hewitt & Associates disclosed that a recent study by Hewitt indicates that benefits now account for 30% of total compensation costs.

In addition to the rising cost of delivering benefit plans, specifically health care benefits, many companies (even small ones) now operate on a more global basis with flexible work arrangements utilizing increased technology. Competing in the global marketplace creates additional pressure on the bottom line as well. These factors, along with many others (pick your favorite) are affecting corner office decisions throughout the country with respect to benefit packages.

Consumer Centric or Consumer Driven Health Plans certainly aren't new, but they are continuing to carve out a larger portion of the health benefits market. The focus of this year's conference was on developing

and implementing Consumer Driven Health Plan (CDHP) options. Roy Ramthun, Special Assistant to the President for Economic Policy, was the Keynote Speaker on Day One of the conference. He outlined the President's goals with respect to CDHPs by discussing topics such as:

1. Allowing employers to contribute more to chronically ill employees
2. Increase HSA contribution limits and out of pocket limits when tied to deductibles
3. Allowing HRA balances to transfer to HSAs
4. Provide tax credits to low income taxpayers that open HSAs
5. Allow premiums to be paid from HSAs for HSA qualified policies regardless of the account holder's circumstances.

Mr. Ramthun also discussed the importance of transparency with regard to the price and quality of health care from all providers, a recurring theme from all speakers at the conference.

The largest portion of the conference focused on implementing the high-deductible health plan (HDHP) along with wellness and disease management programs, limited purpose HRAs and FSAs. Legal experts and representatives from the IRS and Treasury Department wrapped up the conference with compliance related issues surrounding CDHPs, HSAs, HRAs, and Section 125 plans (specifically with respect to debit card guidance and the forthcoming changes to the Section 125 regulations.

[Back to Top](#)

Tri-Star Has Moved Its' St. Louis Office

Tri-Star has moved our offices within the same building we have occupied for 14 years. We had an opportunity to upgrade our space and this move also allowed us to have an updated data center with updated power management and cooling capacity. We also upgraded the work environment for our employees.

We completed this move over the weekend of March 10th and achieved our goal of having all services back on-line before the afternoon of that Saturday.

All of our contact information, including phone numbers, web address, fax number, etc remain unchanged. The only change is our suite number from 400 North to 200 South.

Please update your records accordingly.

Our complete new address is:

Tri-Star Systems
14323 South Outer 40 Road
Suite 200 South

Chesterfield, MO 63017

[Back to Top](#)

IRS Publication Links

With tax season upon us we wanted to provide you with some handy links to IRS Publications that may help you and your employees. We hope they are helpful to you.

[IRS Publication 502 \(Health Care\)](#)

[IRS Publication 503 \(Dependent Care\)](#)

[IRS Publication 969 \(HSAs and Other Tax-Favored Health Plans\)](#)

[IRS Publication 968 \(Adoption\)](#)

[Other IRS Publications](#)

[Back to Top](#)

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[Back to Top](#)

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