

Comment Newsletter

A Note from the Editor:

As January 1, 2008 approaches, I believe it is important to review some of the recent changes to the rules and regulations affecting cafeteria plans. Some of these changes are already in effect, while others take effect January 1, 2008. This special issue of the CONEXIS Comment reviews this information to ensure that you are prepared for these important changes.

CONEXIS is committed to enhancing our service by continuously improving our processes to ensure we remain the industry leader in quality. In recognition of this commitment, CONEXIS was nominated for the 2007 Global Six Sigma awards. As outlined in the story below, CONEXIS was part of a very select group of companies nominated for this prestigious award. We are proud of this nomination and we look forward to the opportunity to continue providing service of unequalled excellence throughout the coming year.

On behalf of the entire CONEXIS family, I wish you and yours the very best holidays and the happiest New Year.

Sincerely,



Jason Culp
Director of Marketing



IRS Benefit Card Regulatory Updates

CONEXIS Compliance

Benefit Card and Inventory Information Approval System (IIAS)

The electronic payment card guidance issued in 2006 (IRS Notice 2006-69) clarified that benefit cards may not be used at non-healthcare merchants such as discount stores or grocery stores unless an Inventory Information Approval System (IIAS) is utilized. Shortly thereafter, the IRS issued subsequent transitional relief that allowed continued use of benefit cards at supermarkets, grocery stores, discount stores, and wholesale clubs with non-healthcare merchant category codes (MCC) through December 31, 2007. **As a result, CONEXIS will be eliminating all non-healthcare merchants that have not implemented an IIAS from our approved MCC list effective January 1, 2008.**

An IIAS is a point-of-sale system that identifies eligible healthcare FSA purchases by comparing the inventory control information (e.g., UPC or SKU number) for the items being purchased against a pre-established list of eligible medical expenses. The list is restricted to “eligible medical expenses” as described in Section 213(d) of the Internal Revenue Code (including eligible non-prescription items). The eligible medical expenses

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Dependent Care Regulations Update

CONEXIS Compliance

On August 14, 2007, the Internal Revenue Service issued final regulations regarding the dependent care credit under Code §21 (typically referred to as the “Dependent Care Credit”). Dependent care assistance programs (DCAP; also known as a Dependent Care Flexible Spending Account) are heavily impacted by these updates because Code §129, the statutory exclusion for employer-provided dependent care assistance, incorporates Code §21 and the Dependent Care Credit. Although the final regulations do not differ significantly from the proposed regulations issued on May 24, 2006, there are important changes and clarifications that must be reviewed and incorporated by plan sponsors.

These final regulations are effective for taxable plan years beginning on or after August 14, 2007 (i.e. January 1, 2008). Plan sponsors should review their plan’s documentation and procedures to ensure compliance with the new rules.

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IRS Benefit Card Regulatory Updates CONTINUED FROM PAGE 1

are totaled and sent to the benefit card issuer's system which approves the payment subject to coverage under the health plan (i.e., type of coverage provided, covered participant, etc).

CONEXIS' card partner has updated its system to accommodate IIAS information. This new information will identify a merchant with a compliant IIAS in place and approve the transaction accordingly (regardless of MCC). Purchases made through a vendor utilizing an IIAS generally will not require additional substantiation. This means participants can use their CONEXIS Benefit Card to purchase FSA-eligible items from participating vendors without the need to submit receipts or supporting documentation.

[Click here](#) for additional information regarding Inventory Information Approval Systems as well as a list of participating merchants. This list of vendors is subject to change and the implementation dates are not final. Please note that pharmacies have been given until January 1, 2009 to comply with IIAS requirements.

While the merchants listed on the attached document will operate under an industry standard, some merchants (e.g. Walgreen's, drugstore.com, and others) have chosen to maintain a custom IIAS solution. Typically, expenses incurred at these merchants will also be processed without the need to submit receipts or additional supporting documentation.

CONEXIS' card partner will continue to actively encourage grocery stores, discount stores, and other retail store associations to develop a standard IIAS solution within the IRS timetable described above. CONEXIS will provide updates as more details regarding additional merchants and commitment dates become available. 

Comment Newsletter



About CONEXIS

CONEXIS provides benefits solutions to more than 20,000 clients nationwide, representing more than five million covered lives. For more than 20 years, CONEXIS has delivered a wide range of employee benefits administration solutions to clients ranging from small employers to multi-national corporations, third party administrators (TPAs), business outsourcing partners and health plans. With a dedicated focus on performance, service excellence, and compliance, its expertise includes COBRA and HIPAA Administrative Services; Direct Bill Services; and Flexible Benefits Administration, including Flexible Spending Accounts (FSA) and Section 132 Commuter Benefits. CONEXIS was the nation's first outsourcing provider to offer benefits administration on a single Web-based, fully integrated system and is the only benefits administrator to offer performance standards and guarantees to all clients, regardless of size. Headquartered in Dallas, Texas, with offices in Orange, California, CONEXIS is a Word & Brown company. For more information, visit the company's Web site at www.conexis.com.

Dependent Care Regulations Update

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A copy of the regulations is available for download [here](#).

Dependent Care in General

A dependent care assistance program allows employers to provide their employees with reimbursement of qualified dependent care expenses through a cafeteria plan on a pre-tax basis¹. Expenses are considered eligible only when certain conditions are met, including the requirement that eligible expenses must be employment-related². In other words, the care must be provided in order to allow the employee and their spouse to be gainfully employed. The IRS considers “gainfully employed” individuals to be those who are employed full-time, attend school full-time or are actively seeking employment. For this purpose, a full-time student is defined as an individual enrolled for the number of course hours considered to be a full-time course of study at an educational organization, during each of 5 calendar months of the taxpayer’s taxable year³.

Consistent with the Gulf Opportunity Zone Act of 2006, changes were made to the definitions

of “qualifying individual” and “custodial parent”. The changes clarify that a qualifying individual is an individual who is a tax dependent as defined in Code §152 or any individual who would otherwise qualify as a tax dependent under Code §152 but for the fact that:

- (i) the individual has income in excess of the exemption amount set forth in Code §151(d);
- (ii) the individual is a child of a Participant who is a tax dependent of another taxpayer under Code §152; or
- (iii) the individual is married and files a joint return with his/her spouse.

Additionally, a child to whom Code §152(e) applies (a child of divorced or separated parents who resides with one or both parents for more than half the year and receives over half of his/her support from one or both parents) may only be the qualifying individual of the “custodial parent” (as defined in Code §152(e)(3)) without regard to which parent claims the child on his or her tax return. Furthermore, children of parents who lived apart at all times during the last six months

¹ Code §129

² Although the IRS may indicate that a particular expense is deemed to be for the “care” of the individual, the expense does not qualify for tax-free reimbursement unless the expense is also necessary to enable the taxpayer to work or look for work.

³ Code §170(b)(1)(A)(ii); note that the enrollment for 5 calendar months need not be consecutive

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follow the same rules for children of divorced or separated parents⁴.

Highlights of Changes

The following list provides an overview of some of the changes and clarifications made by the final regulations:

Education Expenses – Expenses related to pre-school or similar programs below the kindergarten level may be employment-related expenses, even though educational activities may be a significant part of these programs. Expenses related to kindergarten and above are not employment-related expenses.

Specialty Day Camps & Boarding School – The rules provide that specialty day camps, even those with educational components, are eligible dependent care services. However, summer school and tutoring expenses, which are purely educational in nature, are ineligible services. Furthermore, with regard to boarding school, the day care aspect of boarding school is an eligible expense. Therefore, boarding school costs must be appropriately divided between day care and other ineligible expenses like food and education.

Overnight Care and Overnight Camp – In a situation where one spouse works during the day and the other works at night and sleeps during the day, overnight care for a qualifying child may be considered an employment-related expense. This should not be confused with an overnight camp, which is not considered an eligible expense.

Room & Board – Additional costs to provide room and board for an in-home caregiver in excess of usual household expenses are eligible for reimbursement. However, the caregiver cannot be the employee's spouse, child under the age of 19 or other dependent.

Transportation Expenses – An employee's travel expenses to and from day care facilities are not eligible for reimbursement. However, the cost of transportation (e.g. transportation to an after-school program not on the school's premises) furnished **by a dependent care provider** may be an employment-related expense.

Agency Fees & Applications – Indirect expenses such as application and agency fees and deposits may be reimbursable **only if** the employee is **required** to pay the fees to obtain the care and only if the care is in fact provided.

⁴ Code §152

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Short-term Absences – Short, temporary absences from work may be disregarded for taxpayers who must continue to pay for dependent care expenses during the absence. Whether an absence is short and temporary depends on the facts and circumstances of the situation; however the final regulations stipulate that an absence of up to two consecutive weeks due to brief illness or vacation is a short-term or temporary absence. An absence extending beyond two weeks may still be considered short-term if certain conditions apply, however the rules make clear that an absence of four months would never be considered short-term.

Part-time Employment – With regard to part-time employment, an individual working part time must apportion amounts for days worked versus days not worked. On the other hand, if the part-time employee is required to pay for care on a periodic basis (including non-working days), no apportionment is necessary.

Payments to Related Individuals – Payments to a taxpayer's spouse or to a parent of the taxpayer's child who is not the taxpayer's spouse are not qualified expenses.

Compliance is Mandatory

Dependent care assistance plans offer valuable benefits to both plan sponsors and employees. However, failure to comply with IRS rules and regulations can lead to considerable consequences for both plan sponsors and participants. Ensuring your plan is up-to-date begins with properly understanding the rules in place and keeping current with all pertinent updates and changes. Plan sponsors and administrators should regularly review their plan documents and procedures for inaccuracies, inconsistencies and ambiguities that may cause confusion or result in compliance concerns. 🚫

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CONEXIS Earns National Six Sigma Recognition

Business Wire

CONEXIS, a Word & Brown Company, and the national leader in quality specializing in the complex areas of COBRA/HIPAA, Flexible Benefits Administration, Direct Bill and other administrative services, reported its recent selection as one of only 18 organizations honored at the 2007 Global Six Sigma Awards in Las Vegas, Nevada.

The judging panel included representatives from Ford Motor Co., CIGNA Corp., Johnson & Johnson, and Northrop Grumman Corporation, among others. CONEXIS' outsourcing achievement was the result of their significant improvement in claims processing during a period that saw more than a 500% increase in the volume of claims received due to substantial business growth.

"We're very proud of this great recognition of our team's continued successes," said Michael Close, President of CONEXIS. "Our entire organization has embraced continual process improvement through Lean Six Sigma methodologies and this honor confirms our mission of taking best-of-class steps to improve service to all of our customers."

The annual Global Six Sigma Awards are presented to companies that deliver the most outstanding organizational achievements through the application of Six Sigma methodologies.

Six Sigma is a set of business practices that allows companies to improve their processes in

a disciplined, data-driven approach and methodology. It provides specific methods and procedures to follow to ensure that errors seldom arise. Lean Six Sigma is a process improvement methodology that applies similar tools throughout the entire lifecycle of a process to achieve improved cycle time, reduced defects, and elimination of waste.

CONEXIS created the infrastructure to support Six Sigma and set aggressive and sustainable achievement standards for all operating areas to expand their delivery of quality service to customers through measurable, cost-effective processes carried out by dedicated individuals. The CONEXIS infrastructure includes over 50 employees with Lean Six Sigma designations.

CONEXIS' Black Belts have undergone rigorous and dedicated training in statistics and problem-solving techniques to develop projects that will achieve positive results for all CONEXIS customers. Using Lean Six Sigma tools to review existing processes to eliminate inefficiencies, the company's ongoing improvement program will consistently deliver results to customers. The company's Black Belts are full-time directors who receive full company support to focus their efforts completely on company-wide process improvements. 🏆

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