



Best Practices in FSA Enrollment Communications

Practical tactics to maximize FSA participation generating payroll tax savings for employers and employees

An Executive Briefing

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Best Practices in FSA Enrollment Communications

Although flexible spending accounts (FSAs) were scrutinized by Congress during the passage of healthcare reform, they will remain a valuable benefit for employees and employers in the years ahead, but only if they take full advantage of them. Employers that actively campaign to drive higher participation in FSAs will reap the rewards in the form of payroll tax savings. Those who do not are simply leaving money on the table. This white paper outlines simple steps employers can take to maximize participation in their FSA plans.

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Many employers are passing up the opportunity to decrease their payroll tax obligations by not adequately promoting FSA enrollment to their workforce. Yet the benefits of maximizing FSA enrollment are multiple.

FSA Benefit Employers and Employees

Due to their tax-advantaged status, flexible spending accounts (FSAs) offer a practical way to rein in or offset escalating health costs, as well as to provide what essentially amounts to a “free” employee benefit, courtesy of the U.S. Internal Revenue Code. However, many employers are passing up the opportunity to decrease their payroll tax obligations by not adequately promoting FSA enrollment to their workforce. Yet the benefits of maximizing FSA enrollment are multiple:

- FSAs provide payroll tax savings for employers (up to \$100 in savings for each FSA participant);
- Some or all tax savings can be redeployed into other employee benefits;
- FSAs provide tax savings for employees too (typical employee can expect to save \$420 annually);
- FSA participants have a budgeting tool that helps them pay for common household expenses such as medical, dependent care and commuter services; and
- FSA participants are more likely to obtain needed medical services and prescriptions on a timely basis because they know that funds have been set aside to pay for the out-of-pocket expenses not covered by their health insurance.

Overall, the FSA’s utility is as great today as it was a quarter century ago – and perhaps even greater, as income tax rates for some taxpayers begin to climb and health plan deductibles and health costs rise ever higher.

Trends Favoring FSA Growth

Before the passage of healthcare reform there was concern that FSAs, particularly health FSAs, were going away and many employers allowed them to drift along with minimal management attention, leading to under-utilization of those plans. Although healthcare reform made minor changes to FSAs, they remain a tax-saving mechanism for employers and employees alike for the foreseeable future. (See **PPACA Highlights** on page 13.)



The employer's primary financial benefit is not being required to pay the employer share of FICA taxes on employee wages contributed to an FSA.

Additionally, other trends are already contributing to the potential for significantly higher utilization of FSAs – assuming that employers take the necessary steps to maximize employee participation. Those include:

- An aging work force, with the expected higher utilization of healthcare services;
- Increased employer emphasis on wellness and disease prevention, raising employees' focus on financial and non-financial aspects of their health benefits; and
- Widespread adoption of consumer-directed and value-based health plan designs, which encourage employees to look for any advantage they can find in paying for health-related services.

Those factors, however, do not address the immediate financial benefits for employers in sponsoring and/or boosting the enrollment in flex plans. The employer's primary financial benefit, of course, is not being required to pay the employer share of FICA taxes on employee wages contributed to an FSA.

The average health FSA account balance is approximately \$1,340¹, and a typical employee, based on industry averages, can expect to save about 30% in combined federal, state and local taxes². That means that the employee saves roughly \$420 annually, and employers save an average of around \$100, based on a 7.65% FICA rate. Moreover, for employers with a health FSA already in place, the payroll tax savings for every new FSA enrollee amounts to “found money,” as there is only a negligible incremental administrative cost associated with added enrollment.

These benefits are highlighted in **Table 1** on the next page, which is based upon the experience of a SHPS public sector client that recently completed a carefully planned and executed campaign to boost the enrollment of its existing FSA. (The numbers in **Table 1** are rounded for illustrative purposes.)

¹ Based on SHPS client demographics and industry estimates.

² Those savings are dependent upon the employees' federal marginal tax bracket and variations in state and local tax rates around the country



For each new FSA participant, the employer saves up to \$100 in payroll taxes.

As **Table 1** indicates, by raising the level of employee participation in the organization’s flexible spending accounts by 20% (a typical enrollment increase that can be anticipated from a strong enrollment promotion effort), the employer cut its FICA payroll tax obligation by almost \$30,000 for a total savings of approximately \$172,000, and employees in the aggregate saved more than \$676,000 in personal income taxes.

Table 1

Case Study: Financial Impact of a 20% FSA Enrollment Increase
(Assuming 7.65% FICA Employer Payroll Tax Contribution)

	Original # of Participants	Average Contribution Amount	Original Contribution Totals	Additional Participants	Increase in Contributions
Health FSA	1,000	\$1,400	\$1,400,000	200	\$280,000
Dependent Care FSA	150	\$3,200	\$480,000	30	\$96,000
Totals			\$1,880,000		\$376,000

Original Payroll Tax Savings	\$143,820
Added Payroll Tax Savings	\$28,764
Total Payroll Tax Savings	\$172,584

Tax Savings to Employees Assuming 30% Combined Fed, State & Local Tax Bracket	
Average savings per participant - health FSA	\$420
Average savings per participant - dependent care FSA	\$960
Aggregate Employee Tax Savings	\$676,800

As the above table demonstrates, even a modest 20% increase in FSA participation within a medium-sized employee population yields almost \$30,000 in additional payroll tax savings for the employer.

Understanding the Employee Perspective

The truth is that employees typically grasp the basic mechanics of health insurance, 401(k) plans, disability, vacations, sick days, and life insurance. Most will elect and appreciate those benefits without a lot of questions or contemplation. Unfortunately, the same cannot always be said for FSAs, but this can be overcome by understanding the employee’s confusion.



Misconceptions and misgivings can be overcome when management and HR departments take a proactive role in educating employees about FSAs, explaining the benefits and encouraging enrollment.

What frequently impedes employee enrollment in FSAs is a set of objections generally rooted in a fundamental misunderstanding of what FSAs are, and how they work. Many don't understand the wide range of healthcare-related expenses that qualify. Similarly, many people are confused about what expenses qualify under a dependent care FSA. Confusion results in reluctance to participate.

Objections and Responses: Debunking FSA Concerns

The following common employee reasons for not enrolling in FSAs can often be overcome with a simple, clear and accurate response:

Objection: "I already have health insurance."

Response: The FSA is not a separate insurance plan. It's a supplement to your medical plan that lets you set aside pre-tax money from your paycheck to pay for deductibles, co-pays and other expenses not covered by your medical plan.

Objection: "I can't afford another deduction from my paycheck."

Response: If you have healthcare or childcare expenses, you can't afford not to have an FSA. FSAs let you set aside pre-tax money from your paycheck to pay for healthcare and childcare expenses. Since you're already paying those expenses anyway, you might as well save money by paying fewer taxes each paycheck.

Objection: "I hear FSAs are going away."

Response: Healthcare reform did make relatively small changes but FSAs are not going away and will be in place for years to come.

Objection: "I'm afraid I won't use up all the money in my account by the end of the year."

Response: It's not difficult to make a solid ballpark estimate of the expenses you'll incur and can pay through the FSA without any funds left over. Simply look at your annual out-of-pocket expenditures from the last two or three years, then put 75% of the amount into your FSA.

The good news is that misconceptions and misgivings can be overcome when management and HR departments take a proactive role in educating employees about FSAs, explaining the benefits and encouraging enrollment. As noted, a 20% increase in FSA participation is readily achievable with an effective FSA enrollment campaign.



An FSA enrollment campaign should be carefully developed just like a good marketing campaign for any other service or product.

Executing an Effective FSA Enrollment Campaign

An FSA enrollment campaign should be carefully developed just like a good marketing campaign for any other service or product. You should consider your target audience, determine the most appropriate communication methods for your workforce, and craft messages that will drive a call-to-action—namely, to enroll in an FSA. The remainder of this document will provide practical tactics employers can use to boost participation rates in their FSA plans (or maximize participation rates for a new one).

Step 1: Know Your Audience

The decision to enroll in an FSA requires forethought, conscious planning, and an understanding of how the FSA can work to the employee's advantage. It is useful to have a basic understanding of who typically uses FSAs, and why.

The following statistics on health FSA participants were developed from SHPS' spending account participant base:

- Median income: \$55,000-\$65,000
- Marital status: 67% married (59% with children)
- Average age: 43
- Key benefits decision-maker in family: Female

More important insights on employee behavior comes from SHPS research on workers' key motives for taking advantage of an FSA – or planning to do so in the future. In particular, employees want to:

- Reduce their taxable income;
- Pay for predictable out-of-pocket medical costs associated with a chronic health condition;
- Pay for an upcoming medical procedure not covered by the health plan;
- Cover vision and dental costs;
- Fill coverage gaps in high-deductible health plans not covered by health savings accounts; and
- Finance dependent care for either a child or dependent adult.



Effective enrollment communication materials can overcome employee reluctance to have anything “more” withheld from their paycheck, and remind families that care for a dependent adult can be paid for with pre-tax dollars via the FSA.

Naturally, families with young children are primary targets for both types of FSAs. In a typical family with two working parents, child care is a necessary expense—which makes a dependent care FSA attractive. Families with children or individuals with chronic conditions also tend to have higher healthcare expenses overall, and greater out-of-pocket expenditures—reasons they should be drawn to a healthcare FSA.

Step 2: Craft Key Messages

As noted, many employees lack a clear understanding of what a flexible spending account is or how it works, thus a primary goal of an FSA enrollment campaign is to clear up these misunderstandings.

In clear language, communications materials must convey:

- An FSA is separate from a health insurance plan;
- FSAs can be used to pay for most out-of-pocket expenses related to the health plan, like co-pays, deductibles, and co-insurance;
- It is not simply another deduction; it’s money they are already spending;
- The depth and breadth of expenses eligible for reimbursement – vision care, dental work, chiropractic care, summer day camps, pre-school and after-school care;
- The advantages of using pre-tax dollars as opposed to after-tax dollars;
- With a health FSA, the full contribution amount is available for use at the beginning of the benefit plan year; and
- Instructions on how and when to enroll.

Effective enrollment communication materials can overcome, for example, an employee reluctance to have anything “more” withheld from their paycheck, and the expectation that at the end of the year they will “lose” money they haven’t used. Communications can also remind families that care for a dependent adult, such as an aging parent, can be paid for with pre-tax dollars via the FSA.



The most effective FSA communications strategy is one that stays focused on messages of genuine interest to the employee and contains a “call to action.”

The goal of enrollment communications should be to grab the busy and easily distracted employee’s attention and influence the decision to enroll. The use of attractive color and design, eye-catching images, and headlines that inspire curiosity are essential ingredients for success, such as:

- Focus on a single significant benefit or advantage to get attention quickly, such as “Sign Up and Save 30% on Healthcare and Dependent Care Costs,” then follow up with text to clarify and explain other significant advantages.
- Engage employees to think carefully about their out-of-pocket medical and childcare expenses. Employees can be prompted by such questions as, “How much are you spending on healthcare out-of-pocket each year?” or “How much did your child’s daycare cost you last year?”

The most effective FSA communications strategy is one that stays focused on messages of genuine interest to the employee and contains a “call to action.” Your FSA administrator should be able to assist your company with its FSA enrollment campaign.

Step 3: Select Methods of Communication

Once key messages are crafted, you need to consider how you will deliver those messages. What methods of communications will you utilize? There is no “standard” workplace. Accordingly, there is no “one-size-fits-all” communications plan. Knowing your work environment will also allow you insight to what communication methods will have the most impact. For example:

- Office environment where people are working at computers all day - liberally use email or posting on the company intranet.
- Manufacturing plant or distribution center - posters in break rooms and table tents in the cafeteria or lunchroom.
- Retailers with multiple locations - employ email, posters and “snail” mailings to employees’ homes.
- Government entities or large corporations, have all of the work environments described above - utilize every communications mode available - email, intranet postings, posters, table tents, “snail” mail to homes



Social media is well suited for promoting FSA enrollment. Specifically it can be used for:

- *Deadline reminders*
- *Encouraging people to enroll*
- *Explaining FSA benefits and eligible expenses*
- *Including links for more information*
- *Addressing “hot button” issues and quickly responding to misconceptions about FSAs*

- Employees that are in a centralized location – conduct employee meetings or seminars on FSA benefits.
- Employees distributed across multiple locations – conduct webinars to efficiently reach all employees simultaneously.
- Employee demographics that lean towards social media – texting, Twitter, Facebook, and other social media sites.

Employers wishing to use social media sites should designate resources to monitor the sites daily. Be aware there is no control over what is posted by individuals, but users can be removed.

The Role of Incentives

Besides increasing participation rates, incorporating financial incentives for FSA enrollment can generate good will toward the company. The traditional financial incentive comes in the form of a matching contribution, such as \$100 for the first \$100 in FSA contributions. Employees consider it like getting “free money.”

Also, financial incentives can be used in conjunction with health and wellness programs and thereby “kill two birds with one stone.” For example, by contributing \$100 to an employee’s FSA if the employee takes a health risk assessment, employees are encouraged both to enroll in the FSA, and to monitor their health status.

No matter what the work environment, communications efforts need not be confined to the workplace. That is particularly important for married male employees, as women make most healthcare decisions. Enrollment-related materials mailed to employees’ homes have a greater chance of being acted upon by the decision-maker in that situation.

Another important cultural consideration in executing a communications plan is the composition of the workforce. Historically, ethnic minorities and non-native English speakers have far lower FSA participation rates than other groups. Employers with significant numbers of employees within those demographic categories should consider providing bilingual communications, and explore alternative communications channels to reach those populations most effectively.

In every communication, employees should be given an opportunity to engage or respond, and the form of engagement should be as easy

Communications to promote participation should begin well in advance of the enrollment period itself, and increase in frequency as the enrollment deadline approaches.

and simple as possible. Engagement significantly increases the odds that an employee will ultimately enroll. Examples of engagement devices include:

- Filling out a “pre-registration” form;
- Requesting reminders for approaching enrollment deadlines;
- Speaking with a benefits counselor; and
- Using Web-based calculators to determine how much to contribute and potential tax savings (your FSA administrator should be able to provide these).

The more specific this information is to the employee’s situation, the more effective it will be in driving enrollment. The gold standard for providing employee-specific information on the impact of FSA participation is one-on-one benefits counseling during open enrollment. For example, one SHPS client, a regional grocery store chain, included benefits counseling as a key component of a proactive communication campaign. Depending on which health, dental and vision plan the employee chose, the counselor was able to show out-of-pocket costs and how a health FSA could be used to pay for them. This one-on-one dialogue was highly effective in getting employees to understand the benefits of enrolling in a health FSA. The result: A 36% jump in FSA participation and, along with it, a corresponding reduction in payroll tax outlays.

The bottom line: all communications avenues available that have the best probability of reaching the intended employee audiences should be evaluated and, if appropriate, utilized.

Step 4: Schedule Enrollment Communications

While employees can only sign up to take advantage of an FSA during the annual open enrollment period, communications to promote participation should begin well in advance of the enrollment period itself, and increase in frequency as the enrollment deadline approaches. For example, a monthly FSA message could begin six months out for three cycles, followed by a biweekly frequency for two months, and finally a weekly message in the final month.

FSA participation encourages effective use of preventive medicine and wellness programs, and compliance with medical treatments—all of which serve to lower healthcare costs overall.

Effective campaigns will promote FSAs as often as possible, for example:

- Include FSA reminders in all “qualified status change” communications;
- Send re-enrollment reminders to current participants;
- Empower your HR managers by ensuring they are equipped with FSA information;
- Incorporate FSAs into benefit fairs by asking medical, dental, and vision reps to offer FSA reminders when discussing out-of-pocket expenses; and
- Mention FSAs when out-of-pocket costs are communicated (i.e., call-outs in benefits guide) using lifestyle scenarios that employees can identify with.

For maximum effectiveness, the communications cycle should culminate with one-to-one benefits counseling during the enrollment period—a practice that was maintained by the grocery chain referenced earlier that achieved a 30% enrollment jump.

The conclusion of the enrollment campaign should include a look back to see what went good and what didn’t and improving upon that next enrollment.

Conclusion

FSAs will remain a valuable benefit for employees and employers in the years ahead—but only if they take full advantage of them. Employers that actively campaign to drive higher participation in FSAs will reap the rewards. Those who do not are simply leaving money on the table.

Are FSAs a “free lunch?” No, but almost, as their ROI is among the very best in the employee benefits universe. As illustrated in **Table 1**, every dollar contributed to an FSA results in substantial tax savings for employers. Based on the average FSA contribution of \$1,340, for every new FSA participant, employers can expect an additional \$100 in FICA savings. The math is simple: Adding 100 new participants means additional savings of \$10,000, on average. Adding 1,000 means additional savings of around \$100,000. And so on.



Equally significant, FSA participation provides employees with tax savings as well, increases compliance with medical treatments, and encourages effective use of preventive medicine and wellness programs—all of which serve to lower healthcare costs overall.

Because participation in an FSA provides such clear value, even a modest effort to increase enrollments produces positive results. A well-planned, sustained campaign will increase those results substantially, and reward both the employer that undertakes it and the employees who respond. Moreover, surveys indicate that FSA participants consider it a significant and valuable benefit, which gives employers a strong recruitment and retention tool.

PPACA Highlights: Provisions Impacting Health FSAs

The Patient Protection and Affordable Care Act (PPACA) enacted in March, 2010, sought to address concerns among some members of Congress that Flexible Spending Accounts might be too generous, from a tax perspective, to employees and employers. While PPACA made several important changes to FSA rules, none are expected to have a significant adverse impact on the popularity of flex plans.

The following are four key changes brought about by PPACA:

- Beginning in 2011, tax-free FSA expenditures for over-the-counter (OTC) medications are no longer allowed unless specifically prescribed by a physician. **Comment: Most participants will be able to obtain prescriptions for their frequently used OTC medicines and this change is unlikely to have a significant impact on participants.**
- Effective in 2011, employees' income tax penalty for expenditures on nonqualified items will be raised to 20% from 10%. **Comment: So long as employees understand what FSA funds can be used for and the costly consequences of misusing those funds, the increased penalty is a "non-issue."**
- Beginning in 2013, annual health FSA contributions will be capped at \$2,500. That limit will be adjusted annually for inflation. The current annual \$5,000 dependent care FSA cap was unchanged. **Comment: The average FSA participant today contributes less than \$2,500 for health accounts, so the limit will not impact the typical employee.**
- Effective in 2018, the excise tax will apply to "Cadillac" plans, including FSAs. **Comment: The effective date for the excise tax is likely to be pushed back.**

About SHPS

SHPS is a national, single-source provider of benefits administration, medical management software and health improvement programs through the company's SHPS®, Landacorp® and Carewise® Health brands. Whether accessing a single service or a suite of solutions, clients benefit from our unique perspective of the entire employee experience.