



## Failure of the Section 125 25% Key Employee Concentration Testing

The Concentration Testing process incorporates all three aspects of the flex plan; the Medical FSA (MSA), Dependent Care FSA (DCA) and pre-taxed insured benefits. To bring the plan into compliance, you will need to reduce the pre-tax benefits of your key employees. This can be accomplished by reducing any of the three plans listed. Most employers find it easier to start with the reduction of the pre-taxed insured benefits. Please note, the key employee does not have to drop the coverage, but will need to pay for the insured benefit on a post-tax basis. The suggested amount needed to bring the plan into compliance is listed in your email communication. Please send an updated testing template with the premium column amounts adjusted. Once received, we will have the plan re-tested and forward the results to you. We always recommend working with your tax consultant before any adjustments are completed.

## Failure of the Section 129 55% Average Benefits Test (DCA)

The 55% Average Benefits Test compares the non-highly compensated employees' (NHCE) DCA elections to the highly compensated employees' (HCE) elections. To bring this plan into compliance you will need to reduce the DCA election amounts of your HCE(s). The suggested adjustment amount needed to bring the plan into compliance is listed in your email communication. We always recommend working with your tax consultant before any adjustments are completed.

Adjustments should be made to the affected employee's payroll if they have been reimbursed more than the suggested new DCA election, and/or if the employee has contributed more than the suggested new election.