



# Lifetime Benefit Solutions Online Testing Service Reference Guide

## Table of Contents

Introduction .....	3
Process .....	3
Cafeteria Plan .....	4
Health FSA .....	4
Dependent Care Assistance Program (DCAP) .....	5
Self-Funded/Health Reimbursement Account (SF/HRA).....	6
Additional Information .....	6

**\*These materials are for informational purposes only and do not constitute legal and/or tax advice for any particular situation. You should consult your benefits counsel for advice regarding your particular situation.**

## Introduction

Nondiscrimination testing for a self-funded plan, including a Health Reimbursement Account (HRA); a premium only plan; and a cafeteria plan, including any underlying components, such as a Health Flexible Spending Account (Health FSA) or Dependent Care Assistance Program (DCAP) is required by the IRS.

Lifetime Benefit Solutions (LBS) [nondiscrimination testing website](#) includes the IRS required tests, along with detailed instructions and definitions of many terms to assist you. Testing is performed instantaneously after data submission. Groups have access to reports showing the results which can be printed and/or saved.

It is recommended that testing be performed as soon as the enrollment process is complete, several months before the end of the plan year and immediately after the close of the plan year.

## Process

To perform the testing, users should select the specific test for the applicable plan they are testing to receive further instructions. When completing a test, it is important to pay close attention to the definitions for Highly Compensated Employees (HCE) as each test may use different criteria to determine that designation.

- All tests are required for each plan.
- All data entered for the tests should be data for the entire plan year, using the best estimates available for tests conducted before final data is available.
- Performing these tests early in the year can avoid unnecessary problems at plan year end.
- Not performing the required testing could result in disqualification of a plan, resulting in tax adjustments for the plan sponsor and plan participants.
- The tests may be taken more than once throughout the plan year.
- A report is created for each completed test which may be viewed, printed and saved.
- All testing for a plan year must be completed no later than 30 days following the end of the plan year, at which time that plan year testing can no longer be accessed.

**\*These materials are for informational purposes only and do not constitute legal and/or tax advice for any particular situation. You should consult your benefits counsel for advice regarding your particular situation.**

## Cafeteria Plan

Overview of test:

- **Eligibility Test**
  - This test is used to determine whether or not a reasonable percentage of non-Highly Compensated Employees are eligible to participate in the plan.
- **Key Employee Concentration Test**
  - This test determines if certain Key Employees receive too large a portion of the qualified benefits provided for all employees under the plan. If Key Employees receive more than 25% of the total qualified benefits, the plan fails this test.
  - Please note, if the only employees who participate in the plan are employees of a governmental entity, this test does not apply (because governmental entities do not have Key Employees).
- **Contributions and Benefits Test**
  - This tests determines whether or not contributions and benefits discriminate in favor of Highly Compensated Participants.

*Note: If the Cafeteria Plan is a premium only plan, the user only needs to complete the above three tests. If the Cafeteria Plan includes a Health FSA and Dependent Care Assistance Program (DCAP) component, then the user also needs to complete the Health FSA and DCAP tests described below.*

## Health FSA

Overview of test:

- **Eligibility Test**
  - This test is used to determine whether or not the plan discriminates in favor of Highly Compensated Employees with respect to eligibility to participate in the plan.
  - Please note, the definition of Highly Compensated Employees for purposes of this test is different than the definition of Highly Compensated Employees under the eligibility test for cafeteria plans.

**\*These materials are for informational purposes only and do not constitute legal and/or tax advice for any particular situation. You should consult your benefits counsel for advice regarding your particular situation.**

- **Benefits Test**
  - This test requires that benefits available not discriminate on their face, and the Health FSA not discriminate in operation in favor of participants who are Highly Compensated Employees.

## Dependent Care Assistance Program (DCAP)

Overview of test:

- **Eligibility Test**
  - This test is designed to determine if a reasonable number of non-Highly Compensated Employees are eligible to participate in the DCAP.
  - Please note, many plans pass this test easily by allowing all employees to participate (or by excluding all Highly Compensated Employees). However, if your plan excludes any non-Highly Compensated Employees, we recommend completing this test each year (and completing the test based on sample data earlier in the year).
- **More-Than-5% Owners Concentration Test**
  - This test looks at the percentage of total benefits provided by the DCAP to participants who are "More-Than-5%" Owners to determine if those owners or their Spouses or Dependents receive more 25% of more of all benefits provided for the plan year. If those More-Than-5% Owners or their Spouses or Dependents receive less than 25% of the benefits, the plan passes this test for the plan year.
- **55% Average Benefits Test**
  - This test looks at the average benefit provided under the DCAP to Highly Compensated Employees (HCEs) and compares that average to the average benefit provided to employees who are not Highly Compensated Employees (non-HCEs). If the average benefit for non-HCEs is at least 55% of the average benefit for HCEs, the DCAP passes the test. Otherwise, the DCAP fails this test.
- **Contribution and Benefits Test**
  - This test is used to determine if contributions and benefits provided under a DCAP discriminate in favor of Highly Compensated Employees (defined in the same way as for the DCAP eligibility test).

**\*These materials are for informational purposes only and do not constitute legal and/or tax advice for any particular situation. You should consult your benefits counsel for advice regarding your particular situation.**

## Self-Funded/Health Reimbursement Account (SF/HRA)

Overview of test:

- **Eligibility Test**
  - This test is used to determine whether or not the plan discriminates in favor of Highly Compensated Employees with respect to eligibility to participate in the plan.
  - Please note, the definition of Highly Compensated Employees for purposes of this test is different than the definition of Highly Compensated Employees under the eligibility test for cafeteria plans.
- **Benefits Test**
  - This test requires that benefits available under the self-funded or HRA plan not discriminate on their face, and the self-funded or HRA plan does not discriminate in operation in favor of participants who are Highly Compensated Employees.

### Additional Information

- Capitalized terms throughout this guide are defined on the LBS [nondiscrimination testing website](#)

**\*These materials are for informational purposes only and do not constitute legal and/or tax advice for any particular situation. You should consult your benefits counsel for advice regarding your particular situation.**