



Redwood Health Services

FSA
Flexible Spending
Arrangement (125)
&
Transportation Plans
Section 132(f)
Year 2026

Redwood Health Services was established in 1976. RHS provides employee benefit plans and third-party administrative services to large and small employers.

We have decades of experience with plan design and benefits administration. Employers who use our services and benefit plans have experienced significant savings. We are flexible, affordable, and we offer superior customer service.

IRS Section 125 Flexible Spending Arrangement (FSA) Services

Flexible Spending Arrangement (FSA) is a pre-tax account set up by an employer to reimburse employees for certain expenses. The employer must establish a Code Section 125 Cafeteria plan before offering FSA accounts to employees. The two main types of FSA accounts are:

Medical FSA

Reimburses employees for qualified medical expenses (i.e., deductibles, co-pays, etc.). This plan can be funded by the employer, the employee, or both.

Dependent Care FSA

Reimburses an employee's qualified daycare expenses for eligible dependent children or disabled adults.

Participant Services Include:	Employer Services Include:
• Benefits Card Use your benefits card to pay medical fees, copayments, deductibles and dependent care costs.	• Plan Document A legal plan document is provided at the start of the plan year and updated as needed.
• Reimbursement Check Reimbursement is mailed directly to the participant's address.	• Online Access 24/7 secured access to view balances and claims activity.
• Statements A year-end account balance statement is available to each participant.	• Year End Run-out Period A 90-day run-out period is allowed for participants to utilize their funds after the plan year ends.
• Online Access 24/7 secured access to view balances and claims activity.	• Enrollment & Instruction Packets Enrollment documents and instructions are provided to the employer electronically unless requested otherwise.
• Enrollment Notification A benefit card and summary of benefits is sent to the designated recipient (e.g., broker, employer or individual).	• Enrollment Meetings An RHS Representative is available to attend annual enrollment meetings if desired.
• Toll-Free Phone Reach our customer service department during business hours 8:00-5:00 PST, 1-800-548-7677.	• Toll-Free Phone Reach our customer service department during regular business hours 8:00-5:00 PST, 1-800-548-7677.
• No Hassle Claim Form No lengthy claims forms. Your receipt/EOB and a short form is all we require.	• Electronic Reports Reports are posted to RHS's secured website monthly for all transactions and enrollee account balances 24/7.

Flexible Spending Account (FSA) IRS Section 125

Employee Funded FSA (Medical and/or Dependent Care)

Medical FSA maximum allowance has been raised to \$3,400 for the Jan 1, 2026, year.

1. The Employee may elect any amount, up to the maximum dollars as determined by the Employer, to be deducted from the Employee pay as indicated on the Employee Enrollment Form based on the number of pay periods.
2. The funds elected are available at 100% of the dollars chosen at the beginning of the plan year and can be used prior to Employee contribution.
3. If the Employee leaves employment, the Employer is responsible for dollars used up to 100% of the elected FSA dollars that have been used by the Employee (even if the Employee has not contributed in full) up until terminated date of service.
4. If the Employee leaves employment and funds are remaining in the FSA account, the Employee has 90 days to use the funds for dates of service up to and including the last date of employment. The Employer retains any funds remaining.

Dependent Care FSA can be up to **\$7,500** (or \$3,750 if the Employee is married and files a separate federal income tax return) maximum (as determined by the Employer, this amount can never exceed \$5,000 maximum).

1. The Employee may elect any amount, up to the maximum dollars as determined by the Employer, to be deducted from the Employee pay as indicated on the Employee Enrollment Form based on the number of pay periods.
2. The funds elected are available as they accumulate based on Employee contributions.
3. If the Employee leaves employment, the only Dependent Care funds available are the accumulated funds from Employee contributions. However, the Employee may use the accumulated dollars for services up to their termination date.

Employer/Employee Funded Medical FSA

Medical FSA can be up to **\$3,400** (as determined by the Employer maximum allowed and Employee elections).

1. The Employer can match up to the amount chosen by the Employee plus \$500 not to exceed a maximum contribution of \$3,400.
2. The funds elected are available at 100% of the dollars chosen at the beginning of the plan year. (The plan year can differ depending on Employer's plan year) and can be used prior to Employee contributions.
3. If the Employee leaves employment, the Employer is responsible for dollars used up to 100% of the elected FSA dollars that have been used by the Employee (even if the Employee has not contributed in full) up until terminated date of service.

Flexible Spending Account (FSA) IRS Section 125 *(Continued)*

Employer Funded FSA

1. The Employer can match up to the amount chosen by the Employee plus \$500 not to exceed a maximum contribution of \$3,400.
2. The funds elected are available at 100% at the beginning of the plan year as these accounts (the plan year can differ depending on Employer's plan year).
3. If the Employee leaves employment, the Employer is responsible for dollars used up to 100%. However, any remaining funds are retained by the Employer.

FSA Plan Features

*All of the below are Employer chosen options.

*The Employer can choose a specified number of Run Out days up to 90 days.

*The Employer can choose either the Grace Period OR Roll Over options (not both).

Run Out

Run Out is the amount of time a reimbursement must be submitted for the prior plan year. For example, 90 days is the maximum Run Out period allowed by the IRS for an FSA Plan (RHS automatically applies the 90 day run out, unless the Employer specifies otherwise).

Example: ABC Co. Employees have until March 31, 2025 to submit reimbursement for their previous year's FSA Plan. So, ABC Co. has a 90 day Run Out.

Grace Period

Grace Period is the amount of time added to the end of the prior plan year in which FSA funds can be spent. For example, 75 days or March 15th is the maximum Grace Period allowed by the IRS for FSA Plans. An Employer **cannot** choose both the Grace Period and a Roll Over. Only one is allowed by the IRS for FSA Plans.

Example: ABC Co. has a 75 day Grace Period for their FSA Plan for the previous plan year. So, an employee has an additional 75 days to spend all their funds from their previous plan year FSA account, and the **dates of service** can be from the first date of the previous plan year until **March 15th** of the following plan year (e.g. 1/1/2025 – 3/15/2026).

Roll Over

Roll Over is an option that allows up to **\$680** of unused FSA funds to be 'rolled over' into the next plan year. An Employer **cannot** choose both the Roll Over and Grace Period. Only one is allowed by the IRS for FSA Plans.

Example: NEW Co. has a Roll Over plan for 2025. If an Employee does not spend 100% of their FSA money in 2024 by the Run Out date, on the first of the month following the Run Out date, any amount up to **\$680** of the account balance will automatically Roll Over into the current plan year FSA account.

The rollover amount does not count toward the annual FSA contribution limit. An employee can elect the full \$3,400 annual amount and still claim the additional \$680 rollover.

Terminated Employees and FSAs

An employee enrolled in a company FSA plan is terminated or resigns before the plan year's end. What becomes of the FSA?

Upon the Employee becoming inactive or 'termed,' they cease to be active in the FSA plan. Coverage does not continue to month's end as it does in some insurance plans but ends on the same day employment ends. A majority of plans allow additional time to submit claims for reimbursement, typically 30, 60, or 90 days. Service must occur before or on the term date to be eligible for reimbursement. FSA account funds paid on claims that occur following the term date are ineligible for reimbursement and must be repaid to the Plan. Also, if an FSA plan provides a 'flex card,' it should be deactivated when the employee terms.

An eligible employee who has elected COBRA coverage for the FSA plan is excepted from the above requirements and will continue their access to benefits and account funds for services that occur following their termination date.

Does an FSA plan cover a domestic partner?

Domestic partners who are tax dependents of an Employee qualify for tax-free reimbursement of their medical expenses from the Employee's health FSA plan. Domestic partners who are not tax dependents of an employee do not qualify for tax-free reimbursement of their medical expenses from the employee's health FSA plan. This rule applies despite an Employer offering domestic partner health insurance benefits.

Redwood Health Services provides to the employer all of the documentation necessary to establish a qualified Code Section 125 Cafeteria Plan:

FSA Adoption Agreement

At Open Enrollment the Employer completes this form, indicating the effective date of the plan, the maximum contribution amount Employee and/or Employer are allowed for Plan Year, and the reimbursable expenses allowed under the Plan. The Adoption Agreement is updated by the Employer every year.

FSA Enrollment Form

Each eligible Employee who elects to participate in the Plan must complete this form indicating the maximum amount they will contribute for the Plan Year. In addition, if the Employer is contributing an Annual FSA Medical Benefit it will also be indicated on this form. (The Employer determines Maximum contribution up to IRS maximum.)

FSA Code Section 125 Plan Document

This document governs the Employer's FSA Plan and is retained by the Employer. More detailed information is provided and questions are answered by this document if the Summary Plan Description doesn't previously answer them.

FSA Reimbursement Form

Employees use this form to be reimbursed for eligible health expenses that could not be paid for with a benefit card. Dependent Care expenses are reimbursed by completing it with the required documentation and faxing it to RHS.

FSA Closing Document

This document is an invoice for the Plan and is part of the Adoption Agreement.

Transportation Plans Section 132(f)

Section 132 of the IRS code is a qualified Transportation Plan to reduce the cost of commuting to and returning from work. This benefit can only be provided through an Employer.

The IRS provides two methods to assist in commuting costs:

- Commuter highway vehicle or transit pass
- Qualified Parking

For the year ending 2026, \$340 is permitted per month for commuter costs.

For Qualified Parking, \$340 is permitted per month.

These are allowances the **Employee** can set aside on a tax-free basis provided they meet the qualification of these two plans. Per IRS guidelines, you can only be reimbursed up to the available balance in your account and be subject to the monthly limits.

Although a 132(f) plan is similar to a Flexible Spending Account, it does not have a “use it or lose it” penalty. Any unused funds will be carried forward into the next plan year if you are an active employee.

Before the start of the 132(f) plan year, Employees will elect to set aside a certain amount of pre-tax salary to cover qualified transportation expenses. In addition, the Employee can designate up to \$340 per month for qualified commuter costs or \$340 for qualified parking if their Employer permits these levels.

Reimbursements—Two Methods

1. The Employee sends in receipts from qualified transit. RHS will reimburse Employee within ten days of receipt. Go to www.rhs.org for reimbursement forms.
2. **Benefits Card:** This card can be used whenever possible and will provide funds necessary to purchase transit passes and more if available. The Employee needs to maintain receipts for personal IRS auditing purposes.

You can access your card balances by either calling Redwood Health Services at **800-548-7677** or by accessing your account online (instructions will accompany the card).

Certain Expenses are not eligible:

- Carpool expenses
- Expenses reimbursed by your Employer
- Bridge and road tolls
- Non-work expenses
- Your spouse and dependents are not eligible



Redwood Health Services

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