

NewCo

2003 Cafeteria Plan (Flexible Spending Accounts)

HOW DOES A CAFETERIA PLAN WORK?

You are given the opportunity to pay for your payroll deducted premiums on a pre-tax basis. You are able to pay for unreimbursed medical, dental and vision services as well as dependent care services with pre-tax dollars.

What does pre-tax mean to you?

The cost of your medical premiums as well as Flex Med and Flex Care are taken out of your paycheck **before** taxes are calculated on your income. For example, if you had a medical expense of \$100, and you were in the 15% tax bracket, you would actually have to earn \$129.28 (\$9.89 Social Security Tax & \$19.39 Federal Income Tax) in order to pay for your \$100 expense. But if you had elected to have the \$100 taken out of your pay pre-tax, you would have saved \$29.28 in tax dollars.

Taxes are calculated on the amount of your paycheck that is left after all the premiums and spending accounts are taken out. This results in less money to be taxed, and so you pay less in taxes.

Flex Med is for any medical, dental or vision services that you have incurred on yourself and/or your dependents during the plan year, whether or not they are part of the medical plan. This means you can only claim expenses for which you actually had dental work, medical services or vision exams, etc. performed within the plan year. It is not when you pay for these services.

Flex Care is for daycare on your child (up to the age of 13 or a disabled adult that you are legally responsible for) that would need daycare while you as a single parent or you and your spouse must both work.

This Cafeteria plan is a great opportunity for you to save a few tax dollars. But, since it is a tax qualified plan (Internal Revenue Code Section 125-1 and Section 125-2) you need to understand the rules.

What are the rules?

- 1) The choices you make have to be made prior to your effective date on the Plan.
- 2) If you do not have services rendered within the plan year that will allow you to use your spending account funds, you will lose those funds.
- 3) There can be **NO** change for a Plan Year without a life changing event. You will have the opportunity to change your elections annually, prior to (**Plan Year Date**).
- 4) There can be **NO** change in Flex Med even with a life changing event.
- 5) Life changing events are defined by the IRS as:
 - a. Your marriage
 - b. Your divorce
 - c. Birth or adoption of your child
 - d. Death or termination of your dependent relationship
 - e. Change of job status by you or your spouse

QUESTIONS ABOUT FLEXIBLE SPENDING ACCOUNTS

The Cafeteria Plan is an IRS tax qualified plan. The money you receive from Flex Med and Flex Care cannot be claimed on your income taxes. The choices you make when you sign the affidavit are for a plan year. Flex Med elections are for a Plan Year with no change. The other choices, except Flex Med, can only be changed due to a life changing event. A life changing event, as defined by the IRS, is one of the following:

1. Birth or adoption
2. Death of a spouse or dependent
3. Marriage
4. Divorce
5. Termination or change in your or your spouse's employment

Frequently asked questions are:

Q: Do I have to have a receipt before I can file a claim?

A: Yes, even if you have not yet paid the bill, you must have a receipt showing that service was rendered within the plan year.

Q: When can I expect reimbursement on my claim?

A: Claims will be processed **(employer's choice)**.

Q: How much reimbursement will I receive on a Flex Med Account claim?

A: You will receive the amount of the claim or the total yearly contribution, whichever is smaller. Ex: If you turn in a claim for \$250 and your total yearly contribution is only \$200, you will receive the \$200 no matter how much you have contributed year-to-date.

Q: What type of expenses can be claimed on a Flex Med Account?

A: You can claim anything that is not paid by insurance such as your deductible, co-pays, contact wetting solutions, hearing devices & batteries, etc. Under the new IRS regulations of 1990 personal health premiums or premiums for a spouse's health insurance paid by another employer are no longer eligible for a flex plan.

Q: Will a Flex Care (dependent care) claim be paid the same as Flex Med?

A: No, a claim on child or dependent care will be paid on an as earned basis. Ex: If you have a claim for day care for \$100 and you have only contributed \$75, you will receive the \$75 and the remaining \$25 will be deferred to the next reimbursement period.

Q: What can I do to prevent losing this money?

A: Before the end of the plan year, if you have not incurred the amount of expenses you declared, go

ahead and incur some more...buy a new pair of glasses or prescription sunglasses...go to the dentist one more time...stock-up on your prescription...etc.

Q: Can I pre-pay for a medical, dental or vision and be reimbursed based on the date of pre-payment?

A: No, Proposed Regulations Section 1.125, Q/A7 prohibits pre-payment of service. You can only claim the expenses once the service has actually been rendered.

Q: What happens to the funds if I do not incur as many expenses during the plan year as I had anticipated?

A: Any funds remaining in the account at the end of the plan year will be forfeited.

Q: Do I lose any money if I have incurred the expense but do not turn in a claim by the end of the plan year?

A: No, you have 90 days after the end of the plan year to turn in claims. But you must have services rendered BEFORE the end of the plan year.

Q: If I have a balance remaining at the end of the plan year, can I carry it forward to the next plan year?

A: No, any unused balance remaining at the end of the plan year is forfeited.

Q: If I have a balance remaining in one category, can I use it in a different category?

A: No, different expenses are qualified under different IRS tax code sections such as Section 129- Child and Dependent Care, Sections 105 and 106 - Unreimbursed Medical expenses and other qualified premiums. Funds from one code section can not be used in another section.

EXAMPLES OF ELIGIBLE EXPENSES UNDER A CAFETERIA PLAN

Acupuncture	Insulin
Alcoholism treatment as prescribed by a physician	Laboratory fees
Ambulance hire	Laetrile by prescription
Artificial limbs	Nurses fees
Birth control pills	Obstetrical expenses
Braces	Oxygen
Braille books & magazines	Physician prescribed weight loss or smoking cessation programs**
Car controls for handicapped	Physician's fees
Care of mentally handicapped or retarded person	Psychiatric care
Chiropractors	Routine physical & treatment
Co-insurance amounts you pay	Seeing eye dog & its upkeep
Contact lenses & solutions	Special diet prescribed by physician
Crutches	Special care for handicapped
Dental fees	Sterilization fees
Dentures	Surgical fees
Diagnostic fees	Surgical operations
Drugs & medical supplies as prescribed by physician*	Telephone for the deaf
Eyeglasses & examination fee	Television audio display equipment for the deaf
Eye surgery to correct vision	Therapeutic care for drug & alcohol
Handicapped person's schooling	Therapy treatments
Hearing devices & batteries	Vitamins, by prescription only
Home improvement required by medical considerations	Wheel chairs
	Wigs as needed for medical conditions
	X-rays

Compiled from paragraph 7003, CCH Federal Tax Guide Report, and complies with IRS Section 213 at the time this list was prepared. This is intended as a guide and not as a definitive list. It is possible that there will be changes from time to time in the status of the items shown above.

* In order to be 213(d) qualified and claimed under a cafeteria plan, a drug must require a prescription to be purchased. No over-the-counter medication can be claimed under a Flex Med account.

** The prescription must also include a doctor's statement with a description of the disease and stating that the program will be used to either cure or alleviate that condition.

NOTE: Cosmetic dentistry (example: teeth whitening) or cosmetic surgery cannot be claimed in a Flex Med Spending Account. Also, pre-payment of any service cannot be claimed.

NOTE: only expenses **INCURRED** during the plan year are eligible for reimbursement during the plan year. **INCURRED** means that the treatment was received during the plan year. It does NOT mean when the bills were paid

