Cafeteria Plans come in basic and deluxe varieties. Basic is simpe to set-up and allows employees to have any payroll deductions taken out BEFORE taxes, i.e.with pretax dollars. A Deluxe plan allows them to save taxes on insurance premiums, out of pocket health care and or related child or dependent care expenses. Any dollar the employee defers into the flex plan is withheld before any taxes are calculated. The employer will save their portion of social security tax, Medicare, payroll and any other state-required taxes.

The employee may elect to participate in any of three accounts. Federal, State and Social Security taxes are saved on every dollar contributed to the plan.

1. **PREMIUM ACCOUNT (SEC 125)** allows employees to pay their group insurance premium contributions pretax, increasing their take home paycheck;
2. **FLEXIBLE SPENDING ACCOUNT (FSA) HEALTH CARE SPENDING ACCOUNT** allows employees to use pre-tax monies to cover deductibles, co-pays and other non covered expenses;
3. **DEPENDENT CARE SPENDING ACCOUNT** allows employees to save taxes on child or dependent care expenses.

Cafeteria Plan FAQ

Q. What is a Section 125 Plan?

A. Section 125 is a provision of the Internal Revenue Code that allows employees to pay their share of the cost of certain group insurance benefits, un-reimbursed medical expenses, and dependent care expenses with pre-tax dollars. Under this provision, your paycheck is reduced by the amount you elect for the year. That money is removed from your salary structure <u>*before*</u> Federal Income, State Income, and Social Security taxes are calculated, and placed in a separate account. This results in lower taxable income, and <u>***higher take-home pay***</u>**.**

Q. What pre-tax accounts are available to me?

A. There are 3 accounts:

- Premium Payment Account
- Medical Reimbursement Account
- Dependent Care Reimbursement Account

Q. How does a Premium Payment Account work?

A. A Premium Payment Account allows you to have your contributions toward certain group insurance benefits deducted automatically from your paycheck, before taxes are calculated.

Q. What is a Health Care "FSA" Reimbursement Account?

A. Under this provision, you elect an annual amount to be taken out of each paycheck, pre-tax. These funds are available to reimburse you for out-of-pocket medical, dental, and vision expenses, such as deductibles and co-payments. A sample list of eligible expenses is provided in this packet.

Q. What is the Dependent Care Reimbursement Account (DCA)?

A. The Dependent Care Reimbursement Account allows you to pay for your childcare or disabled adult care expenses while you are working, with tax-free dollars.

Q. How do I enroll in the Section 125 Plan?

A: After you have reviewed the plan, and have had your questions answered, you must complete the enrollment form contained in this package. Everyone must sign the enrollment form, even if you are declining participation. To elect to participate in the Premium Payment Account, just check the appropriate box. If you are enrolling in the Medical Reimbursement, Dependent Care, or Personal Policy Accounts, you must elect the annual amount to be withheld from your paycheck, taken in equal increments per pay period.

Q. What is the plan year?

A: Your specific plan year is specified in the Plan Information Summary. It does not have to be the same as the calendar year, and, if this is the first year of the plan, it may be shorter than 12 months. Remember to consider these facts when making your annual elections.

Q. Are there any limits to the amount I can set aside for reimbursement?

A. Every plan is different. Your employer sets the limits on your plan. The maximum and minimum amounts you can elect are outlined in your Plan Information Summary included in this package. For Dependent Care Reimbursement accounts, the law allows you to elect up to $5,000 a year for single, or married taxpayers filing jointly, and $2,500 for married taxpayers filing separately.

Q. Can I make changes in my election or drop out before the end of the plan year?

A. The only time tax law regulations will allow you to make a change is if there is a change in your family or employment status affecting a need for a benefit. Some examples of status changes are: marriage or divorce, the death of a spouse or child, the birth or adoption of a child, or a change in pay or hours of employment for you or your spouse.

Q. Can I switch dollars between accounts?

A. No. The dollars must be used in each account as specified on the election form.

Q. How do I enroll and use the Medical Reimbursement Account?

A. Determine how much you expect to pay this year for medical expenses that are not covered by your insurance plan. These expenses could be insurance co-payments, deductibles, prescriptions, eyeglasses and exams, chiropractic treatments, dental work, orthodontics, lab fees and special education for a learning disabled child. Fill in that amount on the form to be taken out of your paycheck over the year. When you incur an eligible expense, just mail or fax a receipt for the expense, along with a voucher to Pre-Tax Administrators, and we will send you a reimbursement check for that amount.

Q. What if I don't incur enough expenses within the year to get back the money deposited in my reimbursement account?

A. Unfortunately any dollars not used for expenses are ***forfeited.*** This is what is known as the **"use it or lose it"** provision of Section 125. It is very important to be conservative and accurate in estimating your expenses for the plan year.

Q. How do I enroll and use the Dependent Care Reimbursement Account?

A. Fill in the amount on the enrollment form that you want to have deducted from your salary for dependent care expenses for the year. That amount will be divided equally for each pay period, and deducted from your pay. You must then submit a receipt for those expenses from the provider of the dependent care to Pre-Tax Administrators, along with the voucher. You must include the name and tax identification number of the provider, the dates of service, and the amount paid for the services. The expense will be reimbursed up to the amount that you have accumulated in your account at that time. The balance of expenses will be carried over to future months, and additional payments will automatically be disbursed as funds are available.

Q. Who is considered an eligible dependent?

A: Your dependent(s) under the age of 13, or any dependent who is physically not able to care for himself is considered to be a qualified dependent.

Q. Can I use the Dependent Care Account if I pay a family member for childcare?

A. Yes, but they must be reporting that income on their tax return. If that family member is your own child under the age of 19, you may not claim those expenses.

Q. Are there any other requirements for using the Dependent Care Reimbursement Account?

A. Yes. Your spouse must be working, be a full time student, or unable to care for him or herself.

Q. Can I take tax credit for reimbursed dependent care or medical expenses on my income tax return if I am in this Plan?

A. No. Expenses reimbursed under this plan may not be used when calculating your medical expense deduction or the dependent care tax credit. Because for a few individuals it is sometimes more advantageous to take the dependent care tax credit on your tax return, than to participate in the dependent care reimbursement account, you should discuss which alternative is the best for you with your tax advisor, or the enrollment counselor.

Q. Do I have to file any forms with the IRS?

A: Yes. You must file form 2441, Child and Dependent Care Expenses, when you file your 1040 with the IRS.

Q. What happens if I leave the company?

A: If you leave the company, your deductions automatically stop. You will be allowed to submit claims for expenses incurred while you were participating in the plan. You may submit claims up to the end of the grace period specified in your plan, usually three months after the end of the plan year. If you want to continue participating in the Medical Reimbursement Account, you can convert your plan to COBRA, and continue making your contributions voluntarily after tax, until the end of the plan year. By converting to COBRA, you can submit claims for expenses incurred after your termination