

## WHAT IS A FLEXIBLE BENEFIT PLAN AND HOW DOES IT WORK FOR YOU?

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Flexible Benefit Plans are an innovative way for you to save tax dollars - while receiving the best in fringe benefit plans. By participating in your company's Flexible Benefit Plan you can choose the benefits that you most need and want from a "menu" of benefits. Pay for your group healthcare premiums; certain healthcare expenses; and adult and child dependent care with UNTAXED dollars.

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### What is a Flexible Benefit Plan?

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A Flexible Benefit Plan is a voluntary program that provides you with the ability to redirect a portion of your pre-tax salary, which will be "banked" in a tax-free account. This money is then used to pay for your insurance premiums and other expenses that you formerly paid for with after-tax dollars.

### If I elect to redirect my compensation, how can this benefit me?

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The biggest advantage is the tax savings. Since a Flexible Benefit Plan uses pre-tax dollars for reimbursement of qualifying expenses, you can reduce your income taxes and social security tax by reducing your taxable salary.

### If I redirect part of my pay, won't I make less money?

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No. Your net take home pay will increase because of your tax savings.

### Why should I participate in the Medical Reimbursement Plan if I already have medical insurance?

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The Medical Reimbursement Plan offers reimbursement of medical care expenses that are NOT reimbursed by your insurance. Some examples: deductibles; copays; eye exams; glasses & contact lenses; lasik surgery; prescribed medication and most over the counter healthcare items.

### Can I change or revoke my elections during the plan year?

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In general, no. However, there is an exception for a change in family status. This includes marriage; divorce; death of a spouse or childbirth or adoption of a child; termination or commencement of a spouse's employment and/or other events that the Administrator determines will permit a change or revocation of an election during the plan year.

### What documentation do I need to provide the Flexible Benefit Plan Administrator to be reimbursed for expenses I incur?

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Your company will provide you with a reimbursement request form. You will be required to attach a copy of the medical or dependent care billing to this form, then return it to the Administrator.

### What if I don't use all the money I redirect?

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You will be assisted in accurately determining your allowable expenses for the plan year so you can avoid having unused benefits at the end of the year. However, if you do have funds remaining in your account at the end of the year, that amount will be forfeited.

### Are there any negatives I should know about?

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Yes. Because you are not paying social security tax on that portion of your income that has been redirected, your social security benefits may be reduced.

<p><b>SAMPLE CAFETERIA PLAN</b>  <b>Taxable Income Comparison</b></p>
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	<u>Without Conversion Plan</u>	<u>With Conversion Plan</u>
<b><u>GROSS MONTHLY COMPENSATION</u></b>	<b>\$2,000.00</b>	<b>\$2,000.00</b>
Less Pre-Tax Redirections		
— Medical Reimbursement Plan	\$ 0.00	\$ 150.00
— Dependent Care Plan	<u>\$ 0.00</u>	<u>\$ 200.00</u>
<b><u>TAXABLE INCOME</u></b>	<b>\$2,000.00</b>	<b>\$1,650.00</b>
Less Taxes and After Tax Reductions		
— Federal Income Tax (20%)	\$ 400.00	\$ 330.00
— State Income Tax (8%)	\$ 160.00	\$ 132.00
— Social Security/Medicare (7.65%)	\$ 153.00	\$ 126.00
— Medical Reimbursement Plan	\$ 150.00	\$ 0.00
— Dependent Care Plan	<u>\$ 200.00</u>	<u>\$ 0.00</u>
<b><u>NET PAYCHECK</u></b>	<b>\$937.00</b>	<b>\$1,062.00</b>
<b>INCREASE IN DISPOSABLE INCOME</b>		
✓ Per Month		<b>\$ 125.00</b>
✓ Per Year		<b>\$ 1,500.00</b>
✓ As a Percentage of Pay		<b>6.25%</b>

## **QUALIFYING EXPENSES**

### **Medical Care**

Under the plan, you will be reimbursed only for those types of medical-expenses normally deductible on your federal income tax return (without regard to the 7.5% of adjusted gross income limitation).

#### **EXAMPLES OF REIMBURSABLE ITEMS INCLUDE:**

- Medication, birth control pills, vaccinations or vitamins your doctor prescribed.
- Office visits to a medical doctor, dentist, optician/optometrist, chiropractor, osteopath, podiatrist, psychiatrist, psychologist, physical therapist, acupuncturist or psychoanalyst for medical reasons only.
- Medical examination, X-ray and laboratory service, or insulin treatment and whirlpool baths prescribed by a doctor.
- Nursing help. If you pay someone to do both nursing and housework, you can be reimbursed only for the cost of the nursing assistance.
- Hospital care (including meals and lodging), clinic costs and lab fees.
- Medical treatment at a center for substance abuse.
- Medical aids such as: hearing aids (and batteries); false teeth; eyeglasses; contact lenses; braces; orthopedic shoes; crutches; wheelchairs; guide dogs and the cost of maintaining them.
- Ambulance service and other travel costs associated with getting medical care.

#### **YOU CANNOT OBTAIN REIMBURSEMENT FOR:**

- The basic cost of Medicare insurance.
- The hospital insurance benefits tax withheld from your pay as part of the Social Security tax or paid as part of Social Security self-employment tax.
- Nursing care for a healthy baby.
- Illegal operations or drugs.
- Travel your doctor told you to take for rest or change.
- Cosmetic surgery.

***Please note:*** Qualifying medical expenses include only those expenses incurred for you, your spouse, and dependents you list on your Federal tax return. IRS Publication 502, Medical and Dental Expenses, lists medical expenses that can and cannot be deducted and, therefore, reimbursed under this plan.

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## **QUALIFYING EXPENSES**

### **Dependent Care**

Under the plan you will be reimbursed only for dependent care expenses meeting all of the following conditions:

- The expenses are incurred for services rendered after the date an election form is completed and during the plan year to which it applies.
  - Each individual for whom you incur each expense is:
    - a dependent under age 13 for whom you are entitled to claim as a dependent (or a child or other dependent under age 13 whom you are supporting but are not entitled to claim as a dependent only because of a written declaration or decree of divorce) on your federal income tax return; or
    - a spouse of other tax dependent (or a child you are supporting but are not entitled to claim as a dependent only because of a written declaration or decree of divorce) who is physically or mentally incapable of caring for himself or herself.
  - The expenses are incurred for the care of a dependent described above, or for related household services, and are incurred to enable you to be gainfully employed.
  - If the expenses are incurred for services outside your household, they are incurred for the care of a dependent who is described in (2) above, or who regularly spends at least eight hours per day in your household.
  - If the expenses are incurred for services provided by a dependent care center (i.e., a facility that provides care for more than six individuals not residing at the facility), the center complies with all applicable state and local laws and regulations.
  - The expenses are not paid or payable to a child of yours who is under age 19 at the end of the year in which the expenses are incurred
  - The expenses are not paid or payable to an individual for whom you or your spouse is entitled to a personal tax exemption as a dependent.
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**Accepted Over-The-Counter Items\***

**Antiseptics**

- Antiseptic wash or ointment for cuts or scrapes
- Benzocaine swabs
- Boric Acid powder
- First aid wipes
- Hydrogen Peroxide
- Iodine tincture
- Rubbing Alcohol
- Sublimed Sulfur powder

**Asthma Medications**

- Bronchodilator/Expectorant tablets
- Bronchial asthma inhalers

**Cold, Flu, and Allergy Medications**

- Allergy medications, Claritin, Alevet
- Cold relief syrup
- Cold relief tablets
- Cough drops
- Cough syrup
- Flu relief tablets or liquid
- Medicated chest rub
- Nasal decongestant inhaler
- Nasal decongestant spray or drops
- Nasal strips to improve congestion
- Sinus & allergy homeopathic nasal spray
- Sinus medications
- Vapor patch cough suppressant
- Pedialyte for ill children - dehydration

**Diabetes**

- Diabetic lancets
- Diabetic supplies
- Diabetic test strips
- Glucose meters

**Ear/Eye Care**

- Airplane ear protection
- Ear drops for swimmers
- Ear water-drying aid
- Ear wax removal drops
- Homeopathic earache tablets
- Contact lens solutions
- Reading Glasses
- Eye drops – Allergies, dry eyes

**Health Aids**

- Antifungal treatments
- Denture adhesives
- Diuretics and water pills
- Hemorrhoid relief
- Incontinence supplies
- Lice control
- Medicated bandages
- Liquid adhesive for small cuts
- Motion sickness tablets
- Respiratory stimulant ammonia
- Sleeping aids
- Nicotine Gum or patches for stop-smoking purposes
- Condoms
- Spermicidal foam
- Thermometers (ear or mouth)

**Pain Relief**

- Arthritis pain reliever
- Bunion and blister treatments
- Itch relief
- Orajel
- Pain relievers, aspirin and non-aspirin
- Throat pain medications
- Menstrual cycle products for pain and cramp relief
- BenGay Tiger Balm, similar products for muscle pain or joint pain
- Carpal Tunnel wrist supports

**Personal Test Kits**

- Cholesterol tests
- Colorectal cancer screening tests
- Home drug tests
- Ovulation indicators
- Pregnancy tests

**Skin Care**

- Acne medications
- Anti-itch lotion
- Bunion and blister treatments
- Cold sore and fever blister medications
- Corn and callus removal medications
- Diaper rash ointment
- Eczema cream
- Medicated bath products
- Wart removal medications

**Stomach Care**

- Acid reducers
- Antacid gum
- Antacid liquid
- Antacid tablets
- Anti-diarrhea medications
- Gas prevent food enzyme dietary supplement
- Gas relief drops for infants and children
- Ipecac syrup
- Laxatives
- Pinworm treatment
- Prilosec
- Upset stomach medications

**Other**

- Shipping
- Tax on medical items

**Not Acceptable\***

- Aromatherapy
- Baby bottles and cups
- Baby oil
- Baby wipes
- Breast enhancement system
- Cosmetics
- Cotton swabs
- Dental floss
- Deodorants
- Facial care
- Feminine care
- Fragrances
- Hair regrowth
- Low “carb” foods
- Low calorie foods
- Oral care
- Petroleum jelly
- Shampoo and conditioner
- Skin care
- Spa salts
- Sun tanning products
- Tooth brushes
- Electronic Toothbrushes

**“Dual Purpose” Items Requiring Doctor’s Diagnosis and Recommendation**

- Adhesive or elastic bandages
- Blood pressure meter
- Cold or hot compresses
- Foot spa
- Gauze and tape
- Gloves and masks
- Orthopedic Shoes and inserts (only the extra cost over buying non-orthopedic shoes/boots can be reimbursed). The average cost of non-orthopedic shoes will be considered to be \$25 and non-orthopedic boots will be \$50.
- Herbs
- Leg or arm braces
- Massagers
- Minerals
- Multivitamins
- Special supplements
- Special teeth cleaning system
- Vitamins
- OTC hormone therapy and treatment for menopause to treat symptoms such as hot flashes, night sweats, etc.
- Sunscreen (must have present existence of a disease such as skin cancer)
- Pills for persons who are lactose intolerant

\*Plan restrictions may apply. Check with your plan administrator

