

SAMPLE COMPANY*

Section 125 / Flexible Benefit Plan Handbook

2003

*This handbook is designed to give **General Information** regarding Flexible Benefit Plans. Plan design may differ from employer to employer. Please consult Your Employer's Handbook for details on your company sponsored plan.

Washington, September 3, 2003: New guidance by the IRS and Treasury Department states that **the cost for over-the-counter medications** purchased, without a prescription, by an employee for personal use (by the employee, spouse, or dependents) **to alleviate or treat a medical condition, injury, or illness** are eligible for reimbursement through Flexible Spending Accounts.

Presented by: **Pension Dynamics Corporation**

Our Vision:

“To be a recognizable force in employee benefits by exceeding client expectations”

2300 Contra Costa Blvd., Suite 400 Pleasant Hill, CA 94523 (925) 956-0505

Contents

What Is A Flexible Benefit Plan.....	Page 3
How Will The Plan Benefit Me	Page 3
What Type Of Expenses Can Run Through The Plan.....	Pages 3, 8, 9
Why Should I Participate.....	Page 4
How Do I Calculate My Annual Election	Page 5
How Much Can I Save In Taxes	Page 6
Flex Plan V. Federal Dependent Care Credit...Which Is Better For Me	Page 7
How Do I Know If I Am Eligible To Participate.....	Page 8
How Do I Enroll In The Plan.....	Page 8
What Is An “Eligible Expense”	Page 8
List Of Eligible Medical Expenses.....	Page 9
How Am I Reimbursed / How Do I Submit My Claim.....	Page 10
What Happens If I Go On An Unpaid Leave Of Absence.....	Page 10
What Happens If I Change My Mind	Page 11
What Happens If I Don’t Use All Of The Funds I Have Set Aside	Page 11
What Happens To My Money If I Leave The Company.....	Page 12
Glossary Of Terms.....	Pages 13 &14

What Is A Flexible Benefit Plan?

A Flexible Benefit Plan, also known as a Cafeteria Plan, or Section 125 Plan, allows employees to purchase certain benefits with pre-tax dollars. For example, before we implemented a Flexible Benefit Plan, employees who were required to contribute a portion of their salary for dependent insurance coverage were doing so on an after tax basis. With a Flexible Benefit Plan in effect, those premiums can be deducted from your salary before taxes are calculated. In addition, you may choose to contribute a portion of your salary before taxes are withheld into the Medical Reimbursement and/or Dependent Daycare Accounts. Then, when you incur and submit qualifying expenses, you will be reimbursed with your pre-tax dollars. **The result is substantial savings on out-of-pocket health related expenses and work related dependent care expenses.**

How Will The Plan Benefit Me?

You may elect to participate in any of the accounts listed below, and by doing so, will save Federal, State, and Social Security taxes on every dollar contributed to the plan.

Company Sponsored Group Insurance Premiums**

If you are responsible for paying a portion of the company sponsored insurance premiums for yourself and/or your dependents, you may elect to participate in the group insurance premium account. By doing so you authorize Sample Company to withhold your portion of the Company Sponsored* insurance premiums from your paycheck **before any payroll taxes are calculated**, rather than after taxes. Your premium will still be withheld as it is now, it will simply be deducted from your *gross* pay. Your take home paycheck will increase by the amount you would have paid in taxes on your premium amount. There is no paperwork required (other than the initial election form) and no claims to be filed for you to participate and begin saving. At the end of the year, your W-2, or taxable income, will not include any amounts withheld for the insurance coverage for you or your dependents, thereby decreasing your tax liability.

*This is only for premiums paid by Sample Company to a contracted group insurance carrier. The Flexible Benefit Plan does not cover premiums paid for individual policies, or paid through other employers (i.e. a spouses employer or COBRA premiums).

Medical Expense Reimbursement**

Although we provide you with health insurance coverage, chances are it doesn't cover 100% of your expenses. Although the I.R.S. allows you to itemize your out of pocket health related expenses, you will only receive a federal tax credit for any amount in excess of 7.5% of your adjusted gross income (e.g. someone with an adjusted gross income of \$20,000 would receive a credit for any medical expenses *in excess* of \$1,500). The Medical Expense Reimbursement Account allows you to save taxes on all of your qualifying health related expenditures up to the \$3000 plan maximum for this year. This includes any uninsured/unreimbursed medical, dental and vision expenses for you and your dependents. Please refer to the list of eligible expenses found in this handbook.

Dependent Daycare**

If you, and your spouse (if you are married) are both employed, and incur expenses for the daycare of your children under age thirteen (unless disabled) or a dependent adult (not capable of self-care), you may be able to pay for your expenses with pre-tax dollars through the Dependent Daycare Account of the Plan. If your provider is over the age of eighteen, not your dependent, and willing to declare the income, you may participate in the daycare account. You may not claim daycare expenses for days when your dependent is

not living with you and you may not claim the federal credit *and* participate in the daycare account for the same expenses. **Please see "Flex Plan vs. the Federal Daycare Credit" to determine which would be most beneficial for you.** Your daycare deferrals will not appear as taxable wages on your W-2, however, the amount deducted from your pay is reported in Box 10. You will need to complete Form 2441 with your tax return to report the provider's name, address, and Tax I.D. number. Additionally, the amount from Box 10 of your W-2 needs to be entered on line 17 of Form 2441.

PLEASE NOTE that "Educational Expenses" are not considered to be part of a Dependent Daycare program and are not eligible for reimbursement through this type of account. Therefore Pre-School tuition is allowable, however, **kindergarten and private school** tuition is not.

**Enrollment in this plan will reduce your reportable income, therefore your Social Security Benefits/Disability may be affected by your election. However, most will find that the tax savings far outweigh the potential negative impact.

Why Should I Participate?

To pay less in taxes and have more spendable income! The Flexible Benefit Plan allows you to convert many expenses that were previously not deductible into expenses that can be paid with pre-tax dollars. You do this by making pre-tax contributions to the Flexible Benefit Plan. These contributions reduce your gross or taxable income so you pay less in taxes. When you pay for qualifying expenses with money that is now tax-free, the end result is **that YOUR SPENDABLE INCOME WILL INCREASE**. An example is shown in the table below.

	Without Flex	With Flex
Monthly Base Salary	\$2,000.00	\$2,000.00
FLEX Contribution	-\$0.00	-\$455.00
Adjusted Taxable Income	\$2,000.00	\$1,545.00
Federal Withholding	-\$270.00	-\$198.00
State Withholding	-\$40.80	-\$21.60
Social Security Tax	-\$153.00	-\$118.19
Subtotal	\$1,536.20	\$1,207.21
Expenses		
Company sponsored Insurance Premiums	-\$40.00	Paid (FLEX)
Medical/Dental/Vision	-\$115.00	Paid (FLEX)
Daycare/month	-\$300.00	Paid (FLEX)
Spendable Income	<u>\$1,081.20</u>	<u>\$1,207.21</u>

Monthly increase in personal spendable income is \$126.01.

This translates into an annual *take home increase* of **\$1,512.12**.
For many of us, this is equivalent to a \$2,500 (taxable) annual salary raise.

Annual Expenses Worksheet

This worksheet will help you estimate your annual medical and dependent care costs. Check the following list to identify expenses that pertain to you. This list is not intended to be comprehensive, but it contains some of the more common medical and dependent care expenses. Please refer to the list of eligible expenses for your Medical Reimbursement Account for additional qualifying expenses. Remember to be conservative when calculating your election and list only expenses NOT covered by your insurance.

Qualifying Daycare Expenses	Estimated Annual Expense
Amounts paid to a daycare center	\$
Amounts paid for daycare inside your home	\$
Subtotal	\$
Qualifying Medical Expenses	Estimated Annual Expense
Co-payments and deductibles	\$
Mental health counseling	\$
Chiropractic, acupuncture, holistic treatments	\$
Prescription drugs	\$
Laboratory fees, annual check-ups	\$
X-rays, hospital services	\$
Orthodontia	\$
Prescription glasses, eye exams, contacts	
Over-the-counter Drugs and Medications*	\$
Subtotal	\$
Total Annual Expenses	\$

Note: You may consult I.R.S. Publication 502 as a reference for qualifying expenses. However, some expenses are treated differently by code section 125. Please consult your plan administrator if you have any question as to what constitutes an eligible expense.

*Over-The-Counter Drugs and Medications only qualify for reimbursement under a Flexible Benefit Plan if they are primarily used for the treatment of a medical condition, injury, or illness.

Personal Tax Worksheet

The first step toward a full appreciation of the opportunity provided by the Flexible Benefit Plan is to gain an understanding of how the government taxes your income. Remember the last time you received what was supposed to be a \$100 pay raise? You probably noticed that your take home pay increased by only about \$65. The reason the increase was so small compared to your gross wage increase was because the raise was the last \$100 of your income and was taxed at the highest rate you pay. This is referred to as your Marginal Tax Rate.

The following approximate marginal income tax rates are based on the last portion of your income. The tax percentages are called the Marginal Tax Rates because they illustrate the rate you pay at the outer limit of your income. If your spouse also works, use your combined income to estimate your Marginal Tax Bracket.

MARGINAL RATES OF FEDERAL INCOME AND FICA TAXES

Single or Married File Separate Adj. Gross Income	Fed Only	CA + Fed	Married Filing Joint Comb. Adj. Gross Income	Fed Only	CA + Fed	Head of Household Adj. Gross Income	Fed Only	CA + Fed
21,827 – 28,400	15%	21%	43,652 – 56,800	15%	21%	38,051 – 44,125	25%	31%
28,401 – 30,298	25%	31%	56,801 – 60,596	25%	31%	44,126 – 52,120	25%	33%
30,299 – 68,800	25%	33%	60,597 – 114,650*	25%	33%	52,121 – 98,250	25%	34%
68,801 – 143,500	28%	36%	114,651 – 174,700*	28%	36%	98,251 – 159,100	28%	37%
143,501 – 311,950	33%	41%	174,701 – 311,950*	33%	41%	159,101 – 311,950	33%	42%
311,951 – and above	35%	43%	311,951* – and up	35%	43%	311,950 – and above	35%	44%

** If you are married, and your combined income exceeds \$62,700, but your personal salary is less than \$87,000 -- increase the percentage by 6.2 to reflect your Social Security savings.*

To determine your approximate tax savings by participating in the Flex Plan, multiply your estimated annual election for both accounts by your marginal tax rate. The savings may surprise you.

Calculate Your Tax Savings Here:

_____	X	_____	%	=	_____
Annual Election		Tax Rate*			Approximate Savings
(based on previous worksheet)		(Based on chart above)			

Flex Plan vs. The Federal Dependent Care Credit

Each family's daycare situation varies, and it is a good idea to look at both options carefully to make sure you are saving the maximum for your particular situation. The Dependent Care Tax Credit has been enhanced for 2003, without a corresponding increase to the amount available under the Dependent Daycare Reimbursement Account. Therefore it is important that you complete the following worksheet to help you decide which method will be most beneficial for you. This is only an estimate; the following figures are subject to change. Please see your tax consultant for advice on your individual tax situation.

Dependent Care Credit Percentage			
<u>Adj. Gross Income</u>	<u>%</u>	<u>Adj. Gross Income</u>	<u>%</u>
<u>\$17,000 -- \$19,000</u>	<u>33%</u>	<u>\$31,000 -- \$33,000</u>	<u>26%</u>
<u>\$19,000 -- \$21,000</u>	<u>32%</u>	<u>\$33,000 -- \$35,000</u>	<u>25%</u>
<u>\$21,000 -- \$23,000</u>	<u>31%</u>	<u>\$35,000 -- \$37,000</u>	<u>24%</u>
<u>\$23,000 -- \$25,000</u>	<u>30%</u>	<u>\$37,000 -- \$39,000</u>	<u>23%</u>
<u>\$25,000 -- \$27,000</u>	<u>29%</u>	<u>\$39,000 -- \$41,000</u>	<u>22%</u>
<u>\$27,000 -- \$29,000</u>	<u>28%</u>	<u>\$41,000 -- \$43,000</u>	<u>21%</u>
<u>\$29,000 -- \$31,000</u>	<u>27%</u>	<u>\$43,000 +</u>	<u>20%</u>

Federal Dependent Care Credit

***Maximum allowable expense is \$3000 for one child or \$6000 for 2 or more children.**

$$\frac{\text{Estimated annual expenditure}}{\text{*Estimated annual expenditure}} \times \frac{\text{\% (use table above)}}{\text{\% (use table above)}} = \frac{\text{Tax Credit Amount}}{\text{Tax Credit Amount}}$$

Flexible Benefit Plan

Maximum allowable expense is \$5000 regardless of number of children.

$$\frac{\text{*Estimated annual expenditure}}{\text{*Estimated annual expenditure}} \times \frac{\text{Your Marginal Tax Rate}}{\text{(use chart on previous page)}} = \frac{\text{Approx. Tax Savings}}{\text{Approx. Tax Savings}}$$

Compare the "Federal Dependent Care Credit Amount" to the "Approximate Savings" you would receive from using the Dependent Daycare portion of the Flexible Benefit Plan. The method which results in the greater amount will be most beneficial for you.

Claim Reimbursements

When do I become eligible to participate?

Once you meet the eligibility requirements for our health insurance benefits you automatically qualify to participate in the Flexible Benefit Plan.

How do I enroll in the plan?

Once you are eligible to participate you will have 30 days to complete a salary redirection agreement and return it to your Human Resources representative. Please contact your Human Resources representative for enrollment forms and details on how to begin your payroll deductions.

Who is covered under my plan?

You, your spouse, and anyone who qualifies as your tax dependent to the IRS at the end of the year. They need not be covered under your company sponsored health insurance for you to be able to submit claims for them, in fact they need not be covered by insurance at all, they need only be your dependents and incur eligible out-of-pocket expenses. Domestic Partners are not recognized as spouses by the regulations. They would only qualify if they are your financial dependent.

What constitutes an "eligible expense"?

- 1) The expense must be incurred during the current plan year. This means the service was *actually provided* during the plan year, not that you paid for or were billed for the service during the plan year.
- 2) The expense must have been incurred during your coverage period, i.e. after you joined the plan, and before you terminate from the plan.
- 3) The expense must be provided to you or one of your eligible dependents and the portion claimed must not be reimbursed by any other benefit plan or itemized on any tax return. This means you should only claim the portion of your expense not reimbursed or paid for by insurance.
- 4) The expense must have been incurred for the diagnosis, cure, or treatment, of a disease, injury, illness, or diagnosed medical condition.
- 5) The expense must be substantiated with "proof" (i.e. a statement from an independent third party showing the provider, the date of service, the amount of the expense, the person for whom the service was provided, and any applicable insurance reimbursements). If insurance is in force for the expense incurred a copy of the insurance explanation of benefits **must** be included, even if the expense is applied to the deductible. If no insurance benefits are available for the expense you must include a statement of non-insurance. This can be accomplished by simply circling "NO" on the claim form in the area entitled "Insurance Coverage".
- 6) In order for daycare expenses to qualify they must be necessary to allow you and your spouse (if any) to work, look for work, or to go to school full time. If care is provided by a daycare center, the center must comply with all federal and state regulations and care for at least six children. If an individual provides care, the provider must be over the age of eighteen and not claimed as a dependent on your tax return. You must provide the Tax Identification Number (T.I.N.) or Social Security Number of your daycare provider to the Internal Revenue Service. The maximum age of a dependent to qualify for daycare is 12 (unless disabled).

Eligible Expenses For Your Medical Reimbursement Account

The following list identifies eligible medical, dental, and vision related expenses as defined by the Internal Revenue Service. These expenses are eligible for reimbursement through your Medical Reimbursement Account provided they are incurred by you and/or your dependents during the plan year, are not covered by your insurance, and have not been reimbursed through any other benefit plan.

- Acupuncture
- Alcoholism and drug addiction treatment
- Allergy Medications
- Ambulance Transportation
- Artificial limbs and teeth
- Birth control
- Braces (wrist, knee, etc.)
- Capital expenses primarily for medical purposes (to the extent the value of your home is not increased)
- Chiropractic Treatments
- Cold and flu remedies
- Contact lenses and supplies
- Contraceptives
- Co-Payments to Doctors or for Prescriptions
- Crutches
- Deductibles (Medical Insurance)
- Dental treatments (excluding teeth bleaching)
- Diabetic Supplies
- Eye examination
- Eyeglasses (corrective lenses)
- Fees to doctors and hospitals including:

Anesthesiologist	Ophthalmologist
Chiropractor	Optometrist
Clinic	Osteopath, licensed
Dentist	Podiatrist
Dermatologist	Practical Nurse
Gynecologists	Psychiatrist/ Psychologist
Midwife	Neurologist
Obstetrician	Surgeon
- Hearing aids and batteries (including upkeep and maintenance)
- Infertility treatment
- Insulin and related supplies
- Laboratory fees
- Laser/Lasik eye surgery
- Lodging necessary for medical care (within limits)
- Mentally challenged (special tutoring/care of)
- Nursing care
- Nursing home (only for medical reasons)
- Office Visit Co-Payments (for medical appointments)
- Orthodontia (monthly installment payments)*
- **Over-the-counter Drugs and Medications****

- Oxygen equipment
- Pain Relievers
- Physical Therapy
- Pregnancy tests
- Prescription drugs and medicines
- Radial Keratotomy / Orthokeratology
- Rental of medical equipment (if medically necessary)
- Smoking cessation programs
- Sterilization
- Support or corrective devices (i.e. orthopedic shoes)
- Surgery (excluding cosmetic procedures)
- Therapy (for a diagnosed mental condition)
- Transportation expenses for medical care (mileage \$.12/mile, parking, tolls, bus, taxi)
- Wheelchair
- X-rays

The Following Expenses Are NOT ELIGIBLE:

This is not meant to be a comprehensive list but rather a list of items commonly submitted for reimbursement.

- COBRA payments
- Cosmetic surgery/procedures
- Electrolysis
- Hair loss treatments / Rogaine
- Health club dues
- Insurance premiums
- Massage
- **Over the counter items for general health (incl. vitamins, supplements, cosmetics)**
- Teeth Bleaching (cosmetic)
- Tinted clips for prescription eyewear
- Weight loss programs (unless prescribed by a physician as treatment for Obesity)

REMEMBER: Only amounts NOT covered by insurance or reimbursed by another benefit plan are eligible for reimbursement.

* Please contact your plan administrator for details on how to submit claims for monthly orthodontia payments

**To the extent they are purchased for the treatment of a medical condition, illness, or injury.

How Am I Reimbursed?

Insurance Premium Account

No reimbursement is necessary for the group health insurance premiums. The premium is deducted pre-tax from your paycheck, and paid directly to the insurance carrier. The tax savings will be reflected in your take home paycheck.

Medical Reimbursement Account

When you wish to claim an expense through the Medical Reimbursement Account, you should make a copy of the explanation of benefits from your insurance (if insurance coverage is in force), or a detailed receipt from the provider of service (if no insurance is in force). Then, attach that information to a **fully completed and signed claim form** (Request for Reimbursement) and submit it to Pension Dynamics for payment. You will receive reimbursement within a few days. (You may be reimbursed up to your full annual election at any point during the year regardless of the amount you have contributed to date.)

Dependent Daycare Account

When you wish to claim an expense through the Dependent Daycare Account you should submit copies of your daycare receipts for reimbursement along with a **fully completed and signed claim form** (Request for Reimbursement). If no receipt is available you may have your daycare provider indicate dates of service, the provider's name, the amount of the expense, and the Tax I.D. or Social Security Number of the provider on the claim form, and sign in the area requesting the provider's signature. If care is provided by an individual, the provider must be over the age of eighteen and not claimed as a dependent on the your tax return. You will need to provide their Social Security Number to the Internal Revenue Service when you file your taxes at the end of the year. The age limit for dependent children to qualify for care is 12 (unless disabled).

***Please note** that Dependent Care claims are reimbursed differently from Medical claims in that you can only be paid what is currently available in your account. Claims that exceed your current account balance will pend, and will be paid out automatically as you continue to have funds redirected from each payroll. Additionally, the I.R.S. prohibits making advanced reimbursements, which means you cannot be reimbursed for a daycare expense **until after the services have been provided**. You cannot be paid for February daycare services in January, even if your provider requires you to pay in advance.

What Happens If I Go On An Unpaid Leave Of Absence?

You may "front load" your account (double up on your per pay period contributions) in anticipation of your leave or, if you expect to *return to work well in advance of the close of the plan year*, you can double up your per pay period contributions after you return to make up for missed amounts. If you do not plan on returning to work before the close of the plan year, and/or you will be unable to make up missed contributions, *you will need to be terminated from the Flexible Benefit Plan as of the last date you were paid to work*. These options can be examined in greater detail with your human resources representative, or your plan administrator, should the need arise.

Specific Guidelines That Must Be Followed

Because the Flexible Benefit Plan is a "qualified" or pre-tax plan, the Internal Revenue Service has some very specific guidelines we must follow to ensure the plan will retain its favorable tax treatment. You should pay close attention to the following:

What if I Change My Mind? Annual Elections Are Irrevocable

You **may not change your elections or cease participation** during the plan year without a qualifying change in family status. If an employee undergoes a qualified family status change, they may make changes to their elections **accordingly**. For example, if you gain a dependent your medical expenses might increase. In this example you could increase, but not decrease your election. The following is a list of qualifying changes in family status:

- Legal Marital Status
- Gain or loss of a dependent (birth, adoption, death, exceed age limit, etc.)
- Significant change in participant's employment status or work schedule
- Termination or significant change in participant's spouse's employment status
- Significant change in participant's spouse's company sponsored benefits/eligibility

Upon the occurrence of one of these qualifying events, you will need to complete a "Change of Status" form and submit it to the Human Resources Department within 30 days of that event. All requests for election changes are subject to approval by the Plan Administrator.

Use It Or Lose It

Be conservative when making your election. It is better to reach your maximum election amount early in the year than to have funds left over at the end of the year that you cannot claim. The I.R.S. requires any unused funds in the account at the end of the plan year be turned over to the employer, not the employee who forfeited them. The IRS has very strict guidelines on how these funds can be used by the employer. It is not to anyone's benefit to have employees forfeit funds. We at Pension Dynamics Corporation make every effort to help you "use up" your annual elections.

Separation From Service

Regardless if you are terminated or voluntarily leave your job, this will result in the termination of your participation in the Flexible Benefit Plan. You cannot submit claims for services rendered after your date of termination even if you have unused funds in your Medical Reimbursement Account. However, you can still submit the paperwork for services **provided** to you **prior** to your last date of employment and receive reimbursement. If, at the point of termination, you have funds available in your Medical Reimbursement Account, you will be eligible to COBRA the benefit through the end of the plan year. (see your Human Resources Department for details on COBRA).

Limitations May Apply To Highly Compensated/Key Employees

Under the Internal Revenue Code, "highly compensated employees" and "key employees" generally are participants who are officers, shareholders, or highly paid as defined by the IRS. You will be notified by the Administrator each Plan Year whether you are a "highly compensated employee" or a "key employee".

If you are within these categories, the amount of contributions and benefits for you may be limited so that the Plan as a whole does not unfairly favor those who are highly paid, their spouses or their dependents. Plan experience will dictate whether contribution limitations on "highly compensated employees" or "key employees" will apply. You will be notified of these limitations if you are affected.

Proof Of Expense

There are a number of **required** items that must be **included in every claim**, either on the Explanation of Benefits from the Insurance Company, or the itemized bill from the provider:

- Date(s) of service
- Name of provider(s)
- Description of services provided
- Condition requiring treatment (for Medical claims)
- Amount of expense and any insurance payments (if applicable)
- Signature of provider on claim form if no receipt is available (for Dependent Daycare claims only)

[You will find a list of these criteria at the top of any claim form (request for reimbursement)].

Please note that you need only show proof that an *expense was incurred*, not that you have made payment to the provider. In fact, most *payment receipts* do not contain sufficient information and are not considered acceptable proof of expense.

Canceled Checks

Canceled checks and credit card receipts are not valid proof of expense. These items are proof of *payment* but do not have descriptions of services rendered or items purchased. Likewise, they document the date of payment, which may (or may not) be the same as the actual date services were rendered. Please see the first four items listed under Medical Reimbursement Account at the top of your claim form (request for reimbursement) for the information required to submit an eligible claim.

Balance Forward Statements

Balance forward statements are **not valid proof of expense** since they do not show the original date of service or a description of the services provided. Please see the first four items listed under Medical Reimbursement Account at the top of your claim form (request for reimbursement) for the information required to submit an eligible claim.

Glossary Of Terms

Annual Election

The amount of money you wish to redirect to the Flex Plan *annually*. For example, if you contribute \$25 each pay period for 24 pay periods, your annual election would be \$600.

Contribution Amount

The amount redirected from *each paycheck* into a Flexible Benefit Plan Account.

Date of Service

This refers to the date the service was incurred. The I.R.S. considers an expense incurred when the services are provided, not when you are billed or pay for the service. The advantage of this is that you can be reimbursed before you actually pay your doctor.

Explanation of Benefits (E.O.B.)

When you or your provider submit expenses to your insurance company for payment, you receive an E.O.B. detailing what portion of the expenses were covered and what portion is your responsibility. The E.O.B. **must** be submitted whenever insurance coverage is in force.

Family Status Changes

You may not change your elections or cease participation during the plan year without a qualifying change in family status. If an employee undergoes one of the following family status changes, they may make changes to their elections **only in accordance** with the family status change. For example, if you gain a dependent your medical expenses might increase. In this example you could increase, but not decrease your election. The following is a list of qualifying changes in family status:

- Legal Marital Status
- Gain or loss of a dependent (birth, adoption, death, exceed age limit, etc.)
- Significant change in participant's employment status or work schedule
- Termination or significant change in participant's spouse's employment status
- Significant change in participant's spouse's company sponsored benefits/eligibility

Grace Period

There is a 90-day grace period after the close of the plan year during which you may continue to *submit the paperwork* for services **provided** to you **during the plan year**. We understand that it can be difficult to obtain information from insurance companies, in a timely manner, for procedures performed toward the end of the year and we make every effort to work with you to get all of your claims submitted before the final reports are run.

Itemized Bills From Your Provider

If you do not have insurance coverage for a particular expense, be sure to circle "NO" where indicated on the claim form. An itemized bill can then be used as proof of expense provided it includes **all** of the required items listed under "Proof of Expense". Balance forward statements are not acceptable.

Plan Service Provider

We have appointed Pension Dynamics Corporation as our Plan Service Provider for this benefit plan. They will assist us in the administration of this plan in accordance with the regulations set forth by the IRS.

Plan Year

Each plan year is **separate** and only expenses incurred during the current plan year can be reimbursed from your current account. *Unused funds cannot be rolled over to the next plan year.*

Sample Company has set up this plan to run from **January through December** each year.

Provider of Service

The person(s) or institution (company) which provided the actual service. (I.e.... Lens Crafters, UCSF Med. Center, Dr Smith etc.)

Proof of Expense

There are a number of **required** items that must be **included in every claim**, whether on the Explanation of Benefits from the Insurance Company or the itemized bill from the provider:

- Date(s) of service
- Name of provider(s)
- Description of services provided
- Condition requiring treatment (for Medical claims only)
- Amount of expense and any insurance payments (if applicable)
- Signature of provider on claim form if no receipt is available (for Dependent Daycare claims only)

[You will find a list of these criteria at the top of any claim form (Request For Reimbursement)].

Please note that you need only show proof that **an expense was incurred**, not that you have made payment to the provider. In fact, most *payment receipts* do not contain sufficient information and are not considered to be acceptable proof of expense.

Sample Company Flexible Benefit Plan

Election Form And Salary Redirection Agreement

Plan Year January 1st – December 31st, 2003

Name: _____ Social Security Number: _____

Address: _____ Date of Birth: _____

City: _____ State: _____ Zip Code: _____ Daytime Phone: _____

Sex: Male Female Marital Status: Single Married Owner/Corporate Officer Yes No

Annual Salary Range: 0 - \$30,000 \$31,000 - \$64,000 \$65,000 - \$84,000 over \$85,000

Dependents Names / Relationship / Dates of Birth: _____

New Hires Only: Date of Hire: _____ Date of Eligibility: _____ Date of First Contribution (payroll date): _____

If you wish to participate in any portion of the flexible benefit plan you must complete the following section. You may elect to participate in one, or any combination of, the three benefits out lined below.

I ELECT TO PARTICIPATE IN THE PLAN.

I authorize my employer to reduce my salary by the amounts indicated below.

1. **COMPANY SPONSORED INSURANCE PREMIUMS (check one)** YES NO

I understand the premiums (for the insurance benefits I have enrolled in) will be automatically calculated and any portion that is my responsibility to pay will be deducted from my paycheck each month before taxes are calculated on my wages.

2. **MEDICAL REIMBURSEMENT ACCOUNT (annual maximum of \$3000 each plan year)** YES NO

This includes all eligible health related expenses not covered by my health insurance or any other benefit plan for me and my dependents. *This account does NOT cover any type of Insurance Premiums.*

I elect \$ _____ as my ANNUAL Medical Reimbursement election for the 2003 plan year.

For office use only \$ _____ / _____ = _____ annual election remaining pay periods per paycheck contribution

3. **DEPENDENT DAYCARE ACCOUNT** YES NO

This account may not exceed \$5,000 if you are single or married and file a joint return, or \$2,500 if you are married and file a separate return. Only dependent children under age 13 (unless physically or mentally handicapped) and/or a dependent adult requiring daycare qualify. And only for the hours when you and your spouse (if any) are at work.

I elect \$ _____ as my ANNUAL Dependent Care election for the 2003 plan year.

For office use only \$ _____ / _____ = _____ annual election remaining pay periods per paycheck contribution

I DECLINE TO PARTICIPATE IN THE PLAN.

I have been offered the opportunity to have pre-tax deductions from my salary. I have declined to have any pre-tax deductions at this time. I understand that by declining, any portion of company sponsored insurance premiums that I am required to pay out of my own pocket will be an after-tax deduction from my salary. I also understand that I will not be allowed to change this declination until the beginning of the next plan year unless I experience a qualified change in my family status.

I understand that I cannot change this election during the plan year unless I undergo a change in family status. Any unused funds left in my account at the end of the plan year are forfeited. If I terminate my employment, whether voluntarily or involuntarily, and do not elect to COBRA my Medical Reimbursement Account, I can only submit expenses incurred prior to my termination date. My Social Security Benefits/Disability may be affected by this election. I cannot claim a tax credit for any expenses paid for by this Plan. If I elect to participate in the Dependent Daycare Account I must file IRS Form 2441 with my tax return. This election replaces any prior elections and will terminate at the end of the plan year, or if this plan is terminated.

Signature _____ Date _____

Return this completed form to your Benefits/ Human Resources Representative