



# SECTION 125 CAFETERIA PLAN WITH FLEXIBLE SPENDING ACCOUNT

## What Is A Section 125 Cafeteria Plan?

A Section 125 Cafeteria Plan is an IRS approved tax plan that allows you the option of having money deducted from your gross wages before certain taxes are calculated. By paying for your insurance or out-of-pocket medical or dependent daycare expenses with tax-free dollars, you will save from 25-40% in taxes. These tax savings will increase your paycheck.

## How Does A Cafeteria Plan Work?

In the table below you can see the difference between having your insurance premiums deducted from your paycheck after tax verses pre-tax through the Cafeteria Plan. The Cafeteria Plan reduces taxes and increases take home pay by \$11.26 in this example.

	After Tax	Pre-tax
<u>WEEKLY GROSS PAY</u>	\$450.00	\$450.00
Health Ins. Reduction (Cafeteria Tax Free)	\$ 0.00	\$ 40.00
Taxable Salary	\$450.00	\$410.00
<u>TAXES</u> (Fed, State & FICA)	126.67	\$115.41
Health Ins. Premiums	\$ 40.00	\$ 0.00
<u>NET TAKE HOME PAY</u>	\$283.33	\$294.59
<u>WEEKLY TAX SAVINGS</u>	\$ 0.00	\$ 11.26

Remember the insurance premiums are deducted tax free from your paycheck and are not included on your W-2 at the end of the year. They are completely tax free, not tax deferred.

## How Do I Enroll In the Cafeteria Plan?

To participate in the Cafeteria Plan, you must meet the eligibility and service period requirements as listed in your company's plan document. If you meet these requirements, you will be allowed to participate in the plan.

To enroll, you must complete and sign a Cafeteria Plan election form which authorizes your employer to deduct your insurance premiums and/or make pre-tax payroll deductions and to deposit the money into your FSA.

## What Are Flexible Spending Accounts?

They are accounts you set up through payroll to allow you to put money aside, tax free, from your paycheck to be used for out-of-pocket medical and dependent daycare care expenses. Just like with your insurance premiums, you can also pay for out-of-pocket medical and dependent daycare expenses on a tax free basis. Listed below are two types of accounts available.

**I. Medical FSA**– is for out-of-pocket health care costs such as glasses, co-pays, deductibles, etc. The account allows you to pay for these types of health care expenses with tax-free dollars.

**II. Dependent Daycare FSA**– is for expenses for work-related dependent daycare costs, such as a child in daycare or an adult who is physically or mentally incapable of caring for themselves (must be a legal dependent) while you and your spouse work.



Plan Administered By:



BeneTech Administrators, Inc.

## How Do The FSA's Work?

You decide if you want to use either or both FSA's. This is how the accounts work:

- Each account is separate, and the money cannot be transferred from one account to the other. For example, you cannot use money in the Dependent Daycare FSA to pay your children's eligible medical expenses.
- The annual amount you elect is divided by the number of pay periods you will have during the plan year. (\$10 X 52 = \$520)
- When you have an eligible expense, you can pay it with your Benefits Card or pay of pocket to be reimbursed from the appropriate account. (See "How Do I File Claims To Be Reimbursed?")
- All reimbursable expenses must be incurred within the plan year. Incurred expenses are defined as **when the service is provided**, not when a bill or invoice is received or when a payment is made.

The accounts are for predictable expenses, such as after school care, doctor visit co-pays, glasses, prescriptions, etc.

**You will want to plan your deductions carefully. If you have money left over in either account that you do not file for by the end of the Runout Period, you will lose it.**

## How Does The Medical FSA Save You Money?

The table below shows an example of the tax savings. Bob makes \$30,000 a year. Suppose he contributes \$1500 to the Medical Care FSA. He then swipes his Benefits Card or files claims for \$1500. As the example shows, Bob will save \$340 in taxes.

	Without An FSA	With An FSA
1. Annual Salary Before Taxes	\$30,000	\$30,000
2. Annual FSA Contribution	\$0	-\$1500
3. Taxable income will be:	\$30,000	\$28,500
4. Less Taxes Federal Income Tax* (estimate 15%) FICA 7.65%	-\$6,795	-\$6,455
5. Take-Home Pay	\$23,205	22,045
6. Healthcare Expenses (paid with after-tax dollars)	-\$1500	\$0
7. Spendable Income after Healthcare	\$21,705	\$22,045
8. Tax savings using the Flexible Spending Account	\$0	\$340

\*If your federal income tax rate is higher than 15% or if you pay state or local income taxes, you can save even more!

## Can I Make A Change During The Year?

Generally, you cannot change your Premium or FSA election until the next annual enrollment period unless you have a "Qualifying Change of Status" which includes a change in:

- Legal Marital Status: marriage, divorce, legal separation, or death of spouse.
- Number of dependents: birth, adoption or death.
- Employment change of spouse or dependent.
- Change in work schedule of participant, spouse or dependent: unpaid leave, layoff, strike or change from full-time to part-time or part-time to full-time.
- Loss of dependent status: marriage, age, student status, etc.
- Change in place of residence of employee, spouse, or dependent; move from service area.
- Employee, spouse, or dependent entitled (enrolled) to Medicare.
- Significant change in dependent daycare coverage or cost, brought on by a third party.

You cannot change your deposit amounts if you:

- Decide you cannot afford the deductions from your pay and want to decrease or stop deductions.
- Have an unforeseen expense and need the money for other expenses.
- Have medical or dependent daycare expenses that are larger or smaller than you anticipated.

You must notify your Human Resources department of any requested change in status within 30 days of the qualifying event. The change in election must be consistent with the reason for change.

## What If I Have Money Left Over In The Accounts At The End Of The Plan Year?

You will want to plan your deductions carefully. If you have money left over in either account that you do not file for, you will lose it. This is according to the IRS "Use it or Lose it" rule. You will have a Runout Period, as defined in the plan document, to submit claims after the plan year end for eligible expenses you incurred during the plan year. If your employer's plan offers a Grace Period, you will have an additional period of time to incur expenses and use your prior year's funds. Keep in mind, even if you lose money that is left in the account, the taxes you save may outweigh the loss.

## How Do I File Claims To Be Reimbursed?

You should submit a Request for Reimbursement form along with the Explanation of Benefits (EOB) from your insurance provider (credit card receipts and canceled checks are not valid). BeneTech will then reimburse you based on the reimbursement cycle set up by your company. (See the back of this brochure for filing the required paperwork when using the Benefits Card.)

With the Medical Care FSA, you can be reimbursed up to the total amount of your annual deposit—even before that amount has accumulated in your account (just like health insurance). For example, if you choose to contribute \$500 to your Medical Care FSA for the year, you may submit a claim and be reimbursed up to \$500 at any time during the year. With the Dependent Daycare FSA, you will be reimbursed as the money accumulates in your account. You may file a claim only after a service has been rendered or the expense has been incurred.

If you terminate employment before the end of the plan year, you will have a Runout Period from your termination date to submit claims for expenses incurred while you were employed.

## THE MEDICAL CARE FSA

### Eligible Dependents

In addition to claiming out-of-pocket expenses for your own medical care, you can claim medical expenses for your eligible dependents.

### Eligible Medical Expenses

Eligible medical expenses are expenses paid for medical care as described in Section 213(d) of the IRS Code. Generally these include expenses paid for the diagnosis, cure, mitigation or treatment of disease affecting any part or function of the body. Expenses for solely cosmetic reasons are not eligible for reimbursement. Also, **expenses that are merely beneficial to one's general health are not eligible** for reimbursement such as vitamins, minerals and supplements.

**OTC Drugs & Medicines require a doctor's prescription**, such as allergy & sinus, acid controllers, pain relief, stomach remedies, etc. The card cannot be used to pay for these items.

**OTC items that are eligible without a doctor's prescription include, but are not limited to** first aid kits, diabetic management supplies, hearing aid supplies, contact lens supplies and solutions, etc.

### MEDICAL FSA WORKSHEET

#### MEDICAL

Insurance Deductibles	\$ _____
Co-insurance (% not covered by insurance)	\$ _____
Co-pays	\$ _____
Routine Exams (Physicals, OB/GYN, etc.)	\$ _____
Prescription Drug Co-pays	\$ _____

#### DENTAL

Insurance Deductibles	\$ _____
Co-insurance (% not covered by insurance)	\$ _____
Exams, Cleanings, X-rays, etc. (No teeth whitening, or anything cosmetic)	\$ _____
Fillings, Extraction, Caps	\$ _____
Crowns, Bridges	\$ _____
Orthodontics (Braces – special rules apply)	\$ _____

#### VISION

Care (Exams, Contacts, Glasses)	\$ _____
Lasik, RK or Laser Eye Surgery	\$ _____

#### HEARING

Care (Exams, hearing aids, etc.)	\$ _____
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#### OTHER

_____	\$ _____
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**Total Out-of-Pocket Medical Expenses** \$ \_\_\_\_\_

## THE DEPENDENT DAYCARE FSA

### Eligible Dependents

Eligible dependents for the Dependent Daycare FSA are:

- Children under age 13.
- Your spouse, or any other person who is your dependent for federal income tax purposes, who is physically or mentally incapable of caring for himself or herself.

Keep in mind that for these dependents to be eligible, they must spend at least eight hours in your home, each day.

### Eligible Expenses

You can use the Dependent Daycare FSA to pay for:

- Care provided outside your home, although your dependents must spend at least eight hours per day in your home.
- A child care or adult care center that complies with state and local regulations.
- A nursery school or summer day camp.
- Dependent care duties performed by a housekeeper.
- Someone to care for an elderly or incapacitated dependent.
- A relative who cares for your dependents, so long as he or she is age 19 or older and is not one of your dependents.
- A baby-sitter (either inside or outside your home).

You will need to file IRS Form 2441, providing the name, address and taxpayer identification number (TIN) or Social Security Number (SSN) of the service provider when you file your tax return. You will also need to provide this information when requesting reimbursement. The amount of your Dependent Daycare Account deposit will automatically be reported on your W-2 form.

### Expenses That Are Not Eligible

Expenses not eligible for the Dependent Daycare FSA include:

- Baby-sitting that is not work-related.
- Overnight camp.
- School costs for kindergarten and higher.
- Expenses that are deducted on your tax return at year end.
- Meals and fees. (supplies, activity, field trips, etc.)

For a complete list of eligible and ineligible expenses, see IRS publication 503, "Child and Dependent Care Expenses." This publication can be ordered from the IRS by calling 1-800-TAX-FORM or downloaded at [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

### Special Rules - Dependent Daycare FSA

- The total amount you deposit into your account cannot be greater than your income or your spouse's income, whichever is lower. For example, if you earn \$30,000 and your spouse earns \$4,000, the most you can deposit in the Dependent Daycare FSA is \$4,000.
- If your spouse has no income, but is a full-time student or is disabled, he or she is assumed to earn \$250 a month if you claim one eligible dependent and \$500 a month if you claim two or more dependents.
- If both you and your spouse have Dependent Daycare FSAs, your total combined deposits cannot be greater than \$5,000.
- If you and your spouse file separate income tax returns, your individual Dependent Daycare FSA limit is \$2,500.
- With the Dependent Daycare FSA, you will be reimbursed as the money accumulates in your account.



## **THE BENEFITS CARD**

### **What is the Benefits Card?**

It is a MasterCard that allows you to swipe it at most stores and doctors/dentists offices to pay for eligible expenses directly from your Medical and/or Dependent Daycare Flexible Spending Account(s). The card deducts each swipe directly from your FSA, thus eliminating the reimbursement wait time.

### **Does Paperwork Still Need to be Submitted?**

YES, paperwork is still required. It is not required if your swipe is equal to one of your employer's health plan co-pays or your swipe is for prescriptions or allowable OTC supplies at a merchant who has implemented the IIAS\* barcode system.

### **How Long Do I Have to Submit Paperwork?**

You have 60 days from the date of the swipe to submit your paperwork.

### **How Will I Know When Paperwork Is Required?**

We have made the process simple: If you receive an e-mail or letter indicating so, then the expense was not auto-approved and paperwork will be required. You can go to our website to check the status of your swipe and account balance.

### **Where Can I Use the Benefits Card?**

- Medical service providers, such as hospitals, physicians offices, dental offices, vision service locations.
- Merchants who have implemented the IIAS barcode system (and those who are exempt from the IIAS). Go to [www.sig-is.org](http://www.sig-is.org) to get a Merchant List.

### **When Can the Card Be Used?**

- At the time of service for copays and eligible products, but not for an amount due based on "estimated" insurance.
- The card should only be used for expenses that will not be reimbursed by your insurance provider or any other source.
- The card should never be used to pay a previous balance or future expense.

### **Do I Have To Use My Card For All Expenses?**

No, you can also pay with another form of payment and submit a Request for Reimbursement for those expenses. They can be submitted any time during the plan year up to the end of the runout period defined in your company's plan document.

### **Is This A Disposable Gift-Type Card?**

No, this is a MasterCard® Benefits Card with an expiration date. **Do not discard or you will be charged for a replacement card.**

### **\*What is IIAS?**

IIAS stands for Inventory Information Approval System and is a Point of Sale system that works off the UPC barcode found on most products sold. This allows merchants to determine what products are eligible to be paid out of the FSA at point of sale.



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