FREQUENTLY ASKED QUESTIONS

What is a Cafeteria Plan?
It is a voluntary plan which gives employees the choice of receiving their full compensation in cash or converting part of their compensation into tax-free benefits.

How can this benefit me?
The biggest advantage is the tax savings. Since a Cafeteria Plan uses pre-tax dollars for reimbursement of qualifying expenses, you reduce your income tax and social security tax by reducing your taxable salary. Your net take home pay will increase by the amount of tax savings.

Why should I participate in the medical reimbursement account if I already have medical insurance?
The medical reimbursement plan offers reimbursement of medical care expenses NOT reimbursed by insurance. For example, expenses for annual physicals, eye exams, glasses, prescribed medicine, and hospital care.

Can I change or revoke my elections during the plan year?
Yes, if there is a family status change in your circumstances. This includes marriage, divorce, death of a spouse or child, birth or adoption of a child, termination or commencement of a spouse’s employment.

What do I need to provide in order to be reimbursed for expenses?
Your company will provide you with a reimbursement request form. You will be required to attach the medical or dependent care billing to this form.

What if I don’t use all the money I redirect?
Careful review of expenses before making an election can minimize or eliminate any unused benefits at the end of the year. However, if you do have funds elected but unused at the end of the year, the law requires that they are forfeited.

This seems too good to be true. What are the negatives?
Because you are not paying social security tax on the portion of your income that has been redirected, your social security benefits may be slightly reduced. Also, you can not claim any portion of your pre-tax benefits on your personal income tax filing. Most people find their pre-tax benefit is higher than the credit they would have received on their personal taxes. It is also important to remember if you do not use the money you have accumulated in your FSA account you can lose it at the end of the calendar year.

Who can I use this benefit for?
Yourself, your spouse, and dependents.

Can I choose just one option under the plan?
Yes. It is called a Cafeteria Plan because the employees can pick and choose the benefits that suit them and their family. You can choose to have just your insurance premiums pre-taxed. Or choose just one of the spending account plans. This plan allows you to take control of your benefits.
FACTS EMPLOYER CLIENTS SHOULD KNOW ABOUT SECTION 125 ACCOUNTS

Section 125 is part of the Internal Revenue Code (cafeteria plan). Within certain limits outlined in the program, employees can direct their before-tax dollars into three expense areas:

1. Health Care — The FSA provides an excellent way for employees to pay for their expenses not covered under their medical or dental plans. See qualifying medical care expenses insert. ■ Deductibles, co-pays, and prescription drugs ■ Expenses not covered by insurance ■ Dental services & orthodontics ■ Vision benefits, eyeglasses, contacts, solutions and eye surgery

2. Dependent Care — The FSA appeals to employees who have dependent care expenses (day care, baby-sitter or elderly care). See qualifying dependent care expenses insert. ■ Adult & child care services ■ And MORE!

3. Premium Only Plan (POP) — The premium only plan allows employees to pay their health care premiums on a pre-tax basis rather than an after-tax basis. This reduces the employees’ taxable income which means they increase their takehome pay. ■ Eligible health insurance premiums on a pre-tax basis ■ Pay administrative costs ■ Fund next year’s FSA for all participants ■ Payroll deductions

TAX ADVANTAGES FOR EMPLOYERS

■ Reduced federal income tax ■ Reduced state income tax (except in NJ, PA and states without an income tax) ■ Reduced Social Security tax

Employees pay no FICA on FSA dollars used for qualifying expenses whether the employer or employee made the FSA contribution.

<table>
<thead>
<tr>
<th>EXAMPLE</th>
<th>With FSA</th>
<th>Without FSA</th>
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<tbody>
<tr>
<td>Salary</td>
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<tr>
<td>FSA Contribution</td>
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<td>Estimated Tax</td>
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Note: FSA contributions are either pre-tax dollars or 75% Federal Social Security tax

HOW TO GET STARTED

Our FSA administration expertise and other broad services make the FSA an easy way to enhance your benefit program.

■ The employer opens an account (or uses an existing one) to hold FSA payroll deductions. ■ The employee contributes to the FSA through payroll deductions. ■ The employee decides how much to put toward health and/or dependent care FSA. This amount must fall within the minimums and maximums set by the employer, and federal law. ■ The employee fills out our simple election form. The form tells the employer how much salary to put into the FSA for the employee each pay period. ■ If dependent care is selected, the participant receives day care services and then files for reimbursement. ■ If reimbursement is used for health care, the partici- pant receives services and first submits a medical, dental, prescription drug or vision claim (if covered under your plan) to insurance company, before filing for FSA reimbursement. * ■ The employee then fills out a simple FSA reimbursement form and sends it to HPS. ■ Each month, HPS reimburses participants directly through the funds. ■ HealthPlan Services sends quarterly statements showing contributions and reimbursements to date according to the contribution schedule and claims submission.

There is one open enrollment period for the year. The Employer chooses the open enrollment period. Changes to employee election periods cannot be made until the next open enrollment period, with the exception of a family status change. FSA dollars can be redirected if:

■ Your status changes due to birth, adoption, marriage, divorce or death ■ Your spouse begins or quits working ■ You or your spouse switch to full or part-time hours

Important Information: any change in election for the above reasons must be made no later than 30 days after the event.

WHAT SERVICES DOES HEALTHPLAN SERVICES PROVIDE?

Assists with Employer Section 125 Requirements:

■ Prepares and supplies the employer with the appropriate documentation that the federal law requires for these plans. ■ Provides employee communication regarding benefits and account status:
  ■ Preparing your FSA plan document
  ■ Supplying your participants with Summary plan Descriptions (SPDs)
  ■ Providing discrimination testing for IRS Sections 125, 105(b) and 129
  ■ Providing signature ready form 5500 and 5500 C/R filing
  ■ Answering any questions you or your employees may have

Assists with Administering your FSA (dependent care and premium plans only):

■ HPS wants to help you administer your FSA program to work for you. We make it easy by handling most of the administrative work. Here’s what we do for you:
  ■ Keep track of all FSA contributions through Census Reports you provide
  ■ Supply easy-to-use Request for Reimbursement forms for your participants
  ■ Reimburse participants weekly, including an Explanation of Reimbursement with each draft
  ■ Provide monthly FSA status reports that summarize contributions and reimbursements for each participant
  ■ Give you personalized Individual Account Summaries to distribute to participants
  ■ Send you monthly FSA fee statements showing administration costs

IMPORTANT INFORMATION

Unused amounts revert to the employer. The employer must decide what to do with the forfeited amounts. Options may include:

■ Pay administrative costs ■ Fund next year’s FSA for all participants ■ Refund a “dividend” to all participants equally ■ Contribute to a charity ■ Taken into their treasury account

If participants use FSA dollars to pay an expense they cannot:

■ Deduct that expense from income taxes or ■ Apply the expense towards a tax credit or ■ Receive reimbursement for that expense under other benefit plans

Affect On Social Security Benefit

A participant’s dollars in the FSA reduce that person’s wages for Social Security. This would reduce retirement and disability benefits. We recommend FSA participants discuss this with their tax advisors.

Important Information: Income Tax Credits are affected.

When participants use FSA dollars to pay an expense, they cannot take a federal income tax credit for that expense. This affects many people who use the depend- ent care tax credit. Tax law reduces the expenses eli- gible for the end of the year tax credit dollar for dollar by the expense amount funded through the FSA.

If the amount participants place in the FSA exceeds the maximum expenses used to figure the tax credit, they may not use the tax credit. Participants may want to consult a tax advisor to help decide if a tax credit or FSA works best for them.

If participants leave their current employer, they may be eligible to continue the health care FSA. This lets them avoid forfeiting unused funds.

If participants stay in the health care FSA, they may elect to;

■ Continue making contributions and receiving reimbursements until the FSA plan year is over
■ Pay contributions with after-tax dollars

If you have the health care FSA, only changes you incurred before you leave are eligible for reimbursement.

Subject to ERISA

FSAs are subject to the requirements of ERISA (Employee Retirement Income Security Act) and provisions of the Internal Revenue Code governing employee benefit plans.