

Section 125

FLEXIBLE SPENDING

Get the Facts you Need...

Your employer is introducing a new benefit option called Section 125 Flexible Spending, or "Flex" for Short. The information contained in this brochure will help you understand how Section 125 Flexible Spending can help you enjoy the benefits you really need, while increasing your spendable income.

Purchase benefits with before-tax dollars.

Through use of Section 125 of the Internal Revenue Code, you can convert a little of your compensation from cash to benefits... that is you can pay your dependent child care expense and other out of pocket medical expenses with dollars that have not yet been taxed. In most cases, the result is increased spendable income without any sacrifice in current benefits.

In the following example, you will learn how Section 125 Flexible Spending really works. Please follow the instruction provided to complete the confidential enrollment questionnaire. An enrollment counselor will provide additional instructions at a meeting to be held in the near future.

Caution: Benefits allocated, but not used, cannot be refunded.

Under the "Use It or Lose It" rule, funds allocated to a certain benefit must be used for that benefit during the plan year. Any allocation remaining unspent at the plan's year end will revert back to the plan.

This potential risk can be minimized by allocating predictable expenses... those costs which you actually expect to incur in the coming year.

Please note a few important considerations:

Medical Expenses Must Be Documented.

Government regulations require that your medical expenses may be reimbursed only if you provide

A) a written statement from an independent third party stating that the expense has been incurred and the amount of the expense and B)) a written statement that the medical expense has not been reimbursed or is not reimbursable under any other health plan coverage. Cancelled checks are not acceptable.

You May Lose Your Dependent Child Care Credit.

Use of the dependent and child care portion of the plan may result in disallowance of the use of the dependent child care credit. Annual dependent and child care expenses cannot exceed \$5,000 (\$2,500 for a married individual filing a separate return), and may

- EXAMPLE 1 -

A working Mother With 2 Children
Annual Earnings of \$36,000

- Benefits Needed -

Dependent Medical • Medical Deductibles • Dental Care • Dependent Child Care

	Without Flex	With Flex
Total Monthly Pay	\$3,000.00	\$3,000.00
Less Pre-Tax Benefits		
Health Premiums*	0.00	120.00
Medical/Dental	0.00	100.00
Child Care	0.00	400.00
Total Pay Subject to Tax	\$3,000.00	\$2,380.00
Less Deductions		
Federal Income Tax	308.09	215.09
FICA Tax	186.00	147.56
Medicare Tax	43.50	34.51
After Tax Income	\$2,462.41	\$1,982.84
Less After-Tax Benefits		
Health Premiums*	120.00	0.00
Medical/Dental	100.00	0.00
Child Care	400.00	0.00
Spendable Income	\$1,842.41	\$1,982.84
Annual Increase In Spendable Income		\$1,685.16

- EXAMPLE 2 -

A Family With Older Children
Annual Earnings of \$48,000 (1 wage earner)

- Benefits Needed -

Dependent Medical • Medical & Dental Expenses

	Without Flex	With Flex
Total Monthly Pay	\$4,000.00	\$4,000.00
Less Pre-Tax Benefits		
Health Premiums*	0.00	150.00
Medical/Dental	0.00	200.00
Total Pay Subject to Tax	\$4,000.00	\$3,650.00
Less Deductions		
Federal Income Tax	446.79	394.29
FICA Tax	248.00	226.30
Medicare Tax	58.00	59.93
After Tax Income	\$3,247.21	\$2,976.48
Less After-Tax Benefits		
Health Premiums*	150.00	0.00
Medical/Dental	200.00	0.00
Spendable Income	\$2,897.21	\$2,976.48
Annual Increase In Spendable Income		\$951.24

not exceed the lesser of your or your spouse's earned income.

Consult Your Tax Advisor.

The above payroll calculations are for illustrative purposes only and may vary based on current federal, state or local conditions. Neither this worksheet nor your Summary Plan Description are intended to offer legal or tax

advice. You should consult your tax advisor prior to enrolling to determine the specific implications of IRC Section 125.

*** Only Premiums for employer-provided insurance coverage may be reimbursed.**

ENROLLMENT FACT FINDER

Please take time to answer the questions on this form which apply to you. Your responses will be used to determine if any additional benefits can be added to your specific program, and will be kept in strict confidence. You may want to review your checkbook register and medical/dental record to help complete this form.

INSTRUCTIONS: In Section A, please refer to your current payroll deductions. Section B, C, D and E refer to current out of pocket dependent child care, medical and dental expenses.

A. List the amounts deducted from your paycheck for each of the following:

- 1. Employer sponsored group medical coverage? \$ ___ per pay period
- 2. Employer sponsored group dental coverage? \$ ___ per pay period
- 3. Employer sponsored group term life insurance? \$ ___ per pay period
- 4. Employer sponsored group disability insurance? \$ ___ per pay period

B. If you are a single parent or your spouse works, what are your expenses for care of dependent children under age 13?

\$ _____ per _____

INSTRUCTIONS: In Section C, please refer to pamphlet "Expenses Eligible for Reimbursement in a Flexible Spending Plan."

NOTE: Only expenses deductible under IRC Section 2131 are eligible for reimbursement.

C. Estimate you uninsured medical expenses:

- 1. Medical coverage deductibles \$ ___ per year
- 2. Co-Insurance \$ ___ per year
- 3. Vision Care (eye exam, contact lenses, glasses) \$ ___ per year
- 4. Routine Exams (OB-Gyn, School physicals) \$ ___ per year
- 5. Costs of travel to medical care \$ ___ per year
- 6. Prescription Drugs (birth control included) \$ ___ per year
- 7. Wheelchair, crutches, other medical equipment \$ ___ per year
- 8. Other _____ \$ ___ per year

TOTAL C 1-8 \$ ___ per year

D. Estimate your dental costs:

- 1. Examinations and cleanings \$ ___ per year
- 2. Braces, retainers or other orthodontia \$ ___ per year
- 3. Fillings, crowns and bridges \$ ___ per year
- 4. Dentures, including replacements \$ ___ per year
- 5. Implants, inlays and X-rays \$ ___ per year
- 6. Fluoride treatments \$ ___ per year
- 7. Other _____ \$ ___ per year

TOTAL C 1-8 \$ ___ per year

E. Other: (Refer to Enrollment Counselor for Information)



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