



PBS

Professional Benefit Services, Inc.

Your Section 125 Cafeteria Plan

What is a Cafeteria Plan?

Authorized through Section 125 of the IRS code, pretax dollars are used to pay for eligible health premiums, certain medical expenses and dependent day care costs. The plan allows you to avoid taxation on a portion of your income. You save taxes on every dollar you deposit.

How does the 125 Cafeteria Plan work?

You elect to deposit a portion of your salary pretax into a Cafeteria account. This account is used to reimburse you for eligible expenses. You determine how much money you will spend on an annual basis for eligible expenses and elect to take a monthly salary reduction for those expenses. The funds are placed into a special account that you may withdraw when eligible claims are submitted and processed. The reimbursement is completely tax free for the covered expenses.

What are these eligible expenses?

- most medical expenses (not paid by insurance plans)
- most dental and vision care expenses (not paid by insurance plans)
- dependent day care expenses
- health, dental and vision premiums (sponsored by your employer)

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Cafeteria Accounts & Eligible Expenses

Medical Reimbursement Account

Medical care expenses include amounts paid for the diagnosis, treatment or prevention of disease, and for treatments affecting any part or function of the body. The expenses must be to alleviate or prevent a physical defect or illness. Expenses solely for cosmetic reasons generally are not reimbursable expenses under the Cafeteria Plan. (IRS Code 105 & 213 Medical Expenses)

The following is a general list of common medical expenses. Not all eligible expenses are included. Please call your PBS administrator to discuss items not specifically listed.

Acupuncture	Fertility drugs	Physicians' fees
Ambulance hire	Flu Shots	Prescription drugs
Artificial limbs, teeth	Hearing Aids/batteries	Psychiatric care
Birth control pills	Hospital services	Routine physicals
Blood pressure monitoring devices	Immunizations	Seeing-eye dog & its upkeep
Braille books & magazines	Insulin	Select over-the-counter medications
Car controls for the handicapped	Laboratory fees	Surgical fees
Chiropractor's fees	Nurses fees	Telephone, special for the deaf
Co-insurance amounts you pay	Obstetrical fees	Television audio display equipment for the deaf
Contact lenses & supplies	Occlusal guards	Therapeutic care for drug & alcohol addictions
Crutches	Operations	Therapy treatments
Dental fees	Optometrist	Well-baby & well-child care (immunizations)
Diabetic medical supplies	Orthodontics	X-rays
Diagnostic fees	Osteopath	
Eyeglasses	Oxygen	
Eye Examinations	Wheelchair	

Dependent Day Care Account

Dependent day care expenses include expenses incurred for the care of a dependent so that you and your spouse can work, look for work or be a full-time student. Expenses allowed are:

- Day care expenses for your tax dependent under the age of 13
- Adult, elder or child day care expenses for your tax dependent who is mentally or physically handicapped

Insurance Premium Account

- Premiums for health, dental and vision insurance sponsored by your employer

Questions & Answers

What types of over-the-counter products are eligible?

Effective January 1st, 2011, OTC items such as cough medicines, pain relievers, acid controllers and diaper rash ointment will not be reimbursed under a health FSA, HRA or HSA unless accompanied by a doctor's prescription. If the doctor's prescription is written as a refillable prescription then it only needs to be submitted with the initial claim. Professional Benefit Services will maintain a copy of the prescription on file, however with each new plan year a new prescription will be required. Insulin and some other OTC items, such as band-aids, will continue to be eligible for reimbursement without a prescription. Personal use, cosmetic and general care items are not eligible. If you have any questions as to what kinds of expenses are eligible, please call our office.

Are dietary supplements eligible for reimbursement?

Dietary supplements, nutritional supplements, vitamins and herbal supplements will **not** be eligible for reimbursement if taken for general health. If recommended by a medical practitioner to treat a specific medical condition, they **may be** eligible for reimbursement. Contact your plan administrator for further information.

Questions & Answers (Cont'd)

How much money may I deposit each year?

You may deduct a total of \$5,000 in the Dependent Day Care Account (\$2,500, if married filing taxes separately). Medical reimbursement expenses will be limited to an annual maximum chosen by your employer. Any funds left in your accounts at the end of the year that you are unable to use, will revert to the company and you will lose them. **Only deduct what you know you can use.**

Can I participate in the pretax Dependent Care Account and still receive a tax credit for my dependent care?

You cannot participate in the plan and receive a tax credit for the same dependent care expenses. Also, the maximum amount of expenses that may be taken into account to determine your available federal tax credit will be reduced, dollar for dollar, by the amount of your reimbursement under the plan. (For example: You shelter \$1,800 under the Cafeteria Plan. At the end of the year, your dependent day care expenses are \$2,000. You may claim the additional \$200 on your federal tax form.)

How are taxes handled?

Again, there are no taxes payable for the amounts deducted pretax. The reimbursement is handled as a fringe benefit provided by your employer. Dollars designated to a pretax account are deducted from your paycheck prior to the computation of taxes. Please be aware that the lower income figure is reported to Social Security and could result in a slightly lower retirement benefit for you.

How do I get my reimbursement?

Send a completed claim form along with documentation to Professional Benefit Services and they will prepare a distribution for you. If you have a benefits card, use it at the point of sale to pay for your health care expenses, eliminating the need for a claim form. Card transactions or claims submitted for reimbursement must be for services incurred in the plan year. The IRS requires the date of service, not the date of your payment to the provider, to be in the plan year. Claims submitted representing expenses from the prior plan year will be denied.

When you use your benefits card or submit a claim for reimbursement, keep all original receipts or invoices in your files for income tax purposes or in the case that your transaction is audited and you need to send us a copy. The copies should be clean and clear so they can be read in this office. Please make sure the receipts show date(s) of service, type of service, and the amount charged for the service. We are unable to accept credit card charge slips as proof of service. We cannot reimburse finance fees or late charges.

What happens if I don't spend all the money in my account?

You must incur expenses for all the money in your pretax accounts for services received (incurred) during the plan year or forfeit your money remaining in the account to your employer. This is the IRS "Use or Lose Rule." You will have a set number of days after the end of your plan year to submit claims for your funds. You can only claim expenses incurred during your plan year. If your employment terminates before the end of the plan year, your plan year will also terminate unless you are eligible for, and elect, COBRA coverage.

Can I switch dollars between accounts?

No. The dollars must be used in each account as you specified on your enrollment form.

Can I change the amount I deposit?

You may change the amount you deposit once a year during the annual open enrollment period. You may only change your amounts during the plan year if you experience an IRS-defined Qualified Family Status Change. IRS Qualified Family Status Changes include: marriage, divorce, death of a spouse or child, birth or adoption of a child, change in job status from full-time to part-time or part-time to full-time by the employee or the employee's spouse, termination or commencement of employment of a spouse, the taking of an unpaid leave of absence by the employee or the employee's spouse, a significant change in hours of work of the employee or the employee's spouse, a return from FMLA leave, and the issuance of a Qualified Medical Child Support Order. Any changes to your pretax account must be consistent with the family status change event. (For example, if you go from full-time to part-time or part-time to full-time employment, you may reduce or increase your dependent day care deduction.)

SECTION 125 CAFETERIA PLAN FOR PLAN YEAR BEGINNING 20_____

CONFIDENTIAL EMPLOYEE WORKSHEET

Instructions:

Use this form to help you estimate the amount of medical, dental, and child care expenses you expect within the coming year. It will help if you start with the amount you spent last year and adjust it based on changes in your family situation.

1. How much is deducted each year for the following:		
a) Medical Insurance		
b) Dental Insurance		
2. TOTAL (sum of lines (a) through (b))		
3. How much (if anything) do you pay each year for child care for dependent children under age 13?		
4. How much (if anything) do you pay each year for the care of a dependent adult while you work?		
5. Medical costs not covered by your insurance, per year:		
a) Deductibles		
b) Percentages you must pay		
c) Vision care (contacts, glasses, etc.)		
d) Routine exams (physicals, well-baby care, etc.)		
e) Prescription drugs (including birth control pills)		
f) Acupuncture, Chiropractor, etc (does not include herbal treatments)		
g) Other anticipated expenses		
6. TOTAL (sum of lines (a) through (g))		
7. Dental costs not covered by your insurance, per year		
a) Examinations		
b) Fillings, crowns and bridges		
c) Dentures		
d) X-rays		
e) Flouride treatments		
f) Orthodontic work		
g) Other		
8. TOTAL (sum of lines (a) through (g))		
9. TOTAL (sum of lines 2, 3, 4, 6 and 8)		
10. Estimated percentage of salary that goes to federal, state, and social security taxes.		
11. Multiply line 9 by line 10.		
12. Estimated child care credit from federal income tax form (if itemized)		
13. Subtract line 12 from line 11 and enter the result on line 14		
14. Total tax dollars saved when deferring through the Cafeteria Plan		

****I understand this worksheet will be used only to help estimate my savings.****