Cafeteria
Plan

SHAFFER INSURANCE SERVICES, INC.

BENEFITS DIVISION

Information Package

CAFETERIA 125 PLANS

Shaffer Insurance Services, Inc. Benefits Division 902 E. Ave Q-9 Palmdale Ca. 93550
Toll Free (866) 412-5872 Office Tel (661) 575 9331 Fax (661) 280 2016

Section 125 Cafeteria Plans or also know as **Flexible Spending Accounts (FSA)**

"Tax Benefit You Can't Afford To Ignore!"

You can **reduce your taxable income** and avoid paying Social Security and Medicare Tax (7.65%) and Federal Income Tax (15% to 40%) by enrolling in your company sponsored Flexible Benefits Plan. These tax savings can apply to one or more of the following options:

1. **Premium Conversion Account** allows for YOUR SHARE of qualifying group insurance premiums to automatically be deducted from your pay with TAX-FREE dollars.
2. **Health Care Flexible Spending Account** allows you to pay for health care expenses for yourself and your family which are not covered by health insurance including dental, vision, orthodontia, etc. (and even those deductibles or "co-pays" which are the patient's responsibility) with TAX-FREE dollars. (The maximum limit is 2550.00 for the year).
3. **Dependent Care Flexible Spending Account** allows you to pay for child day care or dependent care expenses up to $5,000 per year TAX-FREE.

How you save taxes...

When you participate in a flexible spending account via salary reduction, you reduce your federal, FICA, Social Security, Medicare (and in some cases, state) taxes and increase your take-home pay. The money that is deposited into your Flexible Spending Account comes straight out of your gross pay, therefore avoiding taxes.

The following example shows how a single person making $30,000 per year can save$2,777.60 in taxes annually by contributing $403 per month to a spending account. As you can see, with only $403 in monthly-qualified expenses, by enrolling in the Plan, you would have an extra $241.43/month ($2,777.60/year) of spendable income, the amount you would otherwise be paying in taxes.

		Without Flexible Benefits Plan		With Flexible Benefits Plan	
Gross Monthly Salary		$2,500.00		$2,500.00	
	Qualifying Insurance Premiums	$0.00		$100.00	
	Qualifying Health Care Expenses	$0.00		$100.00	
	Qualifying Dependent Care Expenses	$0.00		$203.00	
Total Qualifying Expense		$0.00		$403.00	
Gross Taxable Income		$2,500		$2,097.00	
Income Tax @ 13.3% plus F.I.C.A. @ 7.65%		$523.75		$439.32	
Net Spendable Income		$1,976.25		$1,657.68	
	Post-tax Insurance Premiums	$100.00		$0.00	
	Post-tax Health Care Expenses	$100.00		$0.00	
	Post-tax Dependent Care Expenses	$350.00		$0.00	
Total Post-tax Expenses		$550.00		$0.00	
Net Spendable Income		$1,426.25		$1,657.68	
Increase in Monthly Spendable Income		N/A		$231.43	
Increase in Annual Spendable Income		N/A		$2,777.60	

Premium Conversion Accounts

What is it?

Premium Conversion under Section 125 allows you to avoid Social Security and Federal Income (withholding) Tax on your monthly deduction for group insurance premiums.

How does it work?

If you elect to participate, payroll will adjust your monthly deduction for qualifying insurance premiums from an "after-tax" to a "pre-tax" basis. There are no forms or claims for you to file.

What insurance premiums qualify?

- Premiums for group medical, dental, vision, accident and/or disability insurance (Section 106).
- Qualified premiums you pay for yourself, spouse and/or dependents.

(Please note that any policy that builds cash value or allows for a refund of premium is not a qualified plan and any disability or salary insurance premium paid pre-tax has a taxable benefit.)

Why should I participate?

Your withholding taxes will decrease and your net take-home pay (Spendable income) will increase.

Are there any negatives?

Because Social Security tax will not be deducted from the amount used to pay for qualifying insurance premiums, your Social Security benefits may be slightly reduced.

Can I revoke my premium conversion amount?

Only if you have a change in family status during the plan year. If your group insurance premiums change, your deduction will be adjusted automatically.

How do I participate?

Your share of out-of-pocket premiums will automatically be deducted pre-tax unless you notify your employer to the contrary.

EXAMPLE

Jack earns $30,000 annually and his employer deducts $200/month ($2,400/yr) from his paycheck to pay the premiums for covering his wife and Child under the company's group insurance plan.

Without Premium Conversion	
Gross (taxable) Pay	$30,000
Taxes @ 25%	(7,500)
Insurance Deduction	(2,400)
Net Take home	**$20,100**

With Premium Conversion	
Gross Pay	$30,000
Pre-Tax Insurance Deduction	(2,400)
Taxable Pay	$27,600
Taxes @ 25%	(6,900)
Net Take Home	**$20,700**

Jack has ***increased*** his take home pay by ***$600 per year ($50 per month)*** by participating in his employer's Section 125 Premium Conversion Plan.

How Spending Accounts Work

Each year during the open enrollment period you are given the opportunity to participate in a variety of voluntary benefit programs. The Flexible Spending Account program may be included. If it is and you decide to participate in it you will need to:

1. Complete an election form identifying the amount of pre-tax salary you wish to have set aside each pay period. (This will be giving to the HR person each New Year).
2. Submit your signed completed form to authorize your employer to make your requested pre-tax deduction. These payroll deductions are placed in your spending account each pay period during the plan year.
3. When you incur eligible expenses, you must submit a claim form to Shaffer Ins. Services - Benefits Division requesting reimbursement of the expense from your spending account. The claim form must be accompanied by documentation (i.e., receipts or Explanation of Benefit notices) that identifies your provider's name, the dates of the service, a description of the service and/or name of the medication and the total amount of your claim. Your claims may be submitted any time during the plan year.
4. Following receipt of your claim for reimbursement, Shaffer Ins. Services Benefits Division will produce a check for you in the amount of your claim, using the tax-free money in your spending account. Your employer may have stipulated a minimum reimbursement amount whereby the Shaffer Ins. Services - Benefits Division will not issue you a check until the minimum has been reached.

How to File an FSA (Flexible Spending Account) Claim

Follow these easy steps to file a claim for reimbursement:

1. Obtain a receipt for services from your provider, or an Explanation of Benefits (EOB) from your insurance company.
2. Ensure the service is an allowable expense
3. Fill out a Shaffer Ins. Services, Inc. - Benefits Division Claim form (located on our website, www.shafferins.com)
4. Make a copy of your receipts
5. Either mail or fax the claim form and the copy of your receipts to Shaffer Ins. Services Inc. - Benefits Division, Inc. **But please do not do both.**

Shaffer Ins. Services, Inc. – Benefits Division must receive your claim at least 5 days prior to your companies scheduled pay period. Special check issuance is available, but authorization must be given by your companies HR contact.

Day Care Spending Account

What is it and who is eligible to participate?

The Dependent Care Flexible Spending Account under IRC Section 125 allows you to avoid both FICA (7.65%) and Federal Income Tax (11%, 13%, 14%) on qualifying child and dependent care expenses.

- In order to participate in this plan, you, the employee, and your spouse, must meet the following: The care for which you are paying must be for one or more qualifying dependents.
- You must keep up a home that you reside in with the qualifying dependent(s).
- You must have earned income during the year unless your spouse is a full-time student is unable to care for himself/herself.
- Your dependent care expenses must be incurred so that you can work or look for work.
- The payments you make for dependent care must be to someone you or your spouse cannot claim as a dependent.
- Your care provider must be identified on your tax return when you file your federal income tax.

When filing your income tax, your filing status must be single, head of household, qualifying widow(er) with dependent child, or married filing jointly. You must file a joint return if you are married or meet the "Joint Return Test" rule described in IRS Publication 503 - "Child and Dependent Care Expenses."

What dependents are eligible under this plan?

- You're dependent under age 13 whom you can claim as a dependent for income tax purposes.
- Your spouse who is physically or mentally unable to care for himself/herself.
- Your dependent who is physically or mentally unable to care for himself/herself, and for whom you can claim as an exemption for income tax purposes.
- Your child even if you cannot claim him/her as an exemption on your income tax, if you are divorced or separated and you are the custodial parent. You are considered divorced or separated if either of the following applies:

1. You are divorced or separated under a decree of divorce or separate maintenance or a written separation agreement, or
2. You lived apart from your spouse for all of the last 6 months of the year.

How much can I have withheld from my paycheck as a participant?

Pre-tax reimbursements of qualified dependent care expenses cannot exceed a certain amount during the plan year, and the maximum is the **lowest** of the following:

- Your earned income (including self-employment wages) for the plan year;
- Your spouse's earned income for the year; or
- $5,000 ($2,500 if married and filing separate income tax returns)

There is a special rule in the case of spouses who are full-time students or physically or mentally unable to care for themselves.

- If your spouse meets either criteria, you may contribute up to $2,400 per plan year if you have one dependent, or up to $4,800 if you have two or more dependents.

If you and your spouse participate in separate dependent care spending accounts...

- The maximum you may contribute to both plans is a **combined** $5,000.

For purposes of this plan, a person is considered married if he or she is married at the end of the plan year.

How do I get reimbursed for eligible Day Care expenses?

- The IRS regulations require you to provide:
- The date(s) care was provided or incurred.
- The cost of the care.
- Your care provider's name and tax ID number.
- A signed receipt or invoice from your provider.
- A completed form requesting reimbursement that is submitted to your Dependent Care Flexible Spending Account administrator.

You must also file IRS Form 2441 with your federal tax return at the end of the year to report your dependent care provider(s) tax ID number(s). Otherwise, the IRS may declare your reimbursements as taxable income.

Flexible Spending Account Worksheet for Employees

Pay Check Deductions:

Medical Expenses: (Estimate your uninsured medical costs per year)	Projected Expenses
Insurance Deductibles	$______________
Insurance Co-payments	$______________
Dental Deductibles	$______________
Dental Expenses	$______________
Vision Deductibles	$______________
Vision Expenses	$______________
Hearing Expenses	$______________
Prescriptions	$______________
Medically required equipment	$______________
Chiropractic	$______________
Other Medical Expenses	$______________
TOTAL COST:	$______________

Individually Owned Health Insurance:

(Enter the annual premium amount of any of the following insurance plans that you or your dependents individually own)

Dental Insurance	$______________
Vision Insurance	$______________
Cancer Insurance	$______________
Intensive Care Insurance	$______________
Accident Insurance	$______________
TOTAL COST:	$______________
Total Deductions:	$______________

BENEFIT ELECTIONS FORM AND SALARY REDUCTION AGREEMENT

Employer Name_______________________________

Employee Name (Last, First, MI) Social Security No.

Employee Street Address City, State, Zip Code
Email address___________________________________

I hereby authorize and direct my employer to reduce my salary by pay period in the amount specified to pay for the coverage's shown under the Premium Conversion and Reimbursement Accounts headings shown below. Such reductions, considered as elective contributions under the plan, will start with my first paycheck dated after the effective date of the Plan. I further authorize future adjustments in the amount of the salary reduction in the event that the cost of coverage in any program selected below under the heading PREMIUM is changed by the carrier during the plan year. I also understand that the purpose of this program is to allow employees to select their qualified benefits within the guidelines of the Internal Revenue Code. I understand that the selection of a benefit and the indication that a premium is to be paid does not necessarily include me in the insurance portions of this plan. In most instances an application for insurance must also be completed.

Listed below are the benefits that may be available under the plan. Please indicate which benefits you wish to select by completing the reduction per pay period cost. These selections will remain in effect until a subsequent election form is filed, in accordance with the plan.

Salary Reduction Amount ***per*** Pay Period

Premium (Health Insurance) (Employer/Employee portion) *Not Reimbursed*

(Such as: Blue Cross, Health Net, Kaiser, Delta Dental)

Medical... $___________
Dental... $___________
Vision .... $___________

Per pay period Pretax Deduction for Insurance Premiums $___________

Reimbursement Accounts

FSA Medical Expenses... $___________
FSA Child Care.. $___________

Per pay period Pretax Deduction for Reimbursement Accounts............... $___________

Total Deductions per pay period ....$___________

Starting Pay Date: ___________________

This election form will remain in effect and cannot be revoked or changed during the plan year, unless the revocation and new election are on account of and consistent with a change in family status.

Authorize: I hereby certify the above information to be correct and true and **choose to participate**.

Signature____ Date______________________

Decline**:** The benefits of the plan have been thoroughly explained to me, but I choose **not to participate.**

Signature____ Date______________________

Shaffer Insurance Services, Inc. Benefits Division 902 E. Ave Q-9 Palmdale Ca. 93550
Toll Free (866) 412-5872 Office Tel (661) 575 9331 Fax (661) 280 2016