

# KEEP MORE OF WHAT YOU EARN !!!

## SECTION 125 TAX BENEFIT PLAN

Visit our website at [www.alternative-benefit.com](http://www.alternative-benefit.com)



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## HOW THIS PLAN BENEFITS YOU AND YOUR FAMILY

A Section 125 Tax Benefit Plan allows you to pay for certain benefits and expenses on a pre-tax basis for yourself, your spouse and dependents. By implementing this plan, your employer is helping you reduce taxes you currently pay.

By participating in this Plan, you will immediately save Federal Withholding Tax and Social Security (FICA) taxes on every dollar you elect for qualified expenses. This Plan could mean a tax savings to you of several hundred dollars a year.

### GROUP INSURANCE PREMIUMS

Any contribution you make for medical insurance premiums can be paid with pre-tax dollars under a Section 125 Tax Benefit Plan. This also applies to other group insurance such as dental, vision, group term life, and disability income plans. It is important to note that YOUR employer must sponsor these plans. **Please do NOT include the insurance contribution when calculating your Health Care Reimbursement election. Plans sponsored by your spouse's employer and individual insurance policies are not eligible.**

### DEPENDENT DAY CARE REIMBURSEMENT

The dependent day care portion of a Tax Benefit Plan enables you to pay for out-of-pocket day care expenses with pre-tax dollars. These expenses qualify if they are necessary to enable you and your spouse to work or attend school.

Day care expenses are covered if the dependent is under the age of 13 or is physically or mentally incapable of self-care, and is claimed as a dependent by you when you do your taxes. Also if your spouse is mentally or physically incapable of caring for himself or herself, he or she is eligible for dependent care.

If your dependent is cared for by a friend, family member, or day care facility, you can set aside money in the Dependent Care Account.

You must provide your caregiver's name and social security number or Taxpayer ID number in order to prove the caregiver is claiming your payment as income for Federal Tax purposes.

The amount of reimbursed dependent day care expenses cannot exceed either your or your spouse's annual income. A \$5,000 limit is the maximum amount for a single parent participant or for a married participant filing a joint income tax return. The maximum is set regardless of the number of dependents requiring qualified day care.

We will assist you in determining if your savings will be greater by taking the tax credit or by paying your day care expenses through the Section 125 Plan. Since the amount of the Individual Tax Credit is reduced as your gross income increases, many families will experience greater tax savings generated by this plan. In order to give the most accurate comparison between the Section 125 Plan and the Individual Tax Credit, we will need the following information: Estimated cost of dependent care for the Plan Year, number of dependents in care and approximate annual income.

### HEALTH CARE REIMBURSEMENT

Expenses not covered by any form of insurance -- such as medical, dental, vision and hearing -- can be paid with pre-tax dollars through the Tax Benefit Plan. These out-of-pocket expenses include your insurance plan deductibles, co-pays, and all other expenses not covered by any insurance program for you and your dependents. Examples would include co-pays for prescription drugs including birth control pills, routine physicals, dental fees, orthodontics, eye glasses including exam fees, contact lenses, as well as a wide range of other expenses.

Under current tax law, most employees do not meet the minimum requirement for deducting medical expenses on their income tax form. Currently the government requires an individual to exceed 7.5% of their adjusted gross wages before the next dollar of expenses can be deducted. A family earning \$20,000 a year would need \$1,500 of uninsured medical bills before the next dollar could be tax deductible.

## HOW THE PLAN OPERATES

You elect how much money to set aside to pay for uncovered medical, dental, vision, hearing and dependent day care expenses. (Please see back page for help in determining your estimate of expenses). You pay **NO Federal Withholding, Social Security (or State Income and Local taxes for the Health Care Plan)** on the money placed in these accounts. Your contribution is deducted from your pay equally over the Plan Year. For example: If your out-of-pocket expenses are \$500 annually, your tax savings will be approximately \$150 by taking advantage of this Plan.

The money deducted from your pay is placed in an account for your employer. After you incur a charge for an eligible expense, you then submit a claim form and a copy of your bill or receipt to Alternative Benefit Systems, Inc. You will be reimbursed via check or direct deposit. The reimbursement will occur within 7 business days for Health Care and weekly for Dependent Day Care.

## COMMON QUESTIONS AND ANSWERS

1. **Q** How will pre-taxing my premium affect me?  
*A. You will save Federal Withholding and Social Security (FICA) taxes on each dollar you contribute towards your group insurance benefits.*
2. **Q** Can I include the amount deducted from my pay for Insurance Premiums when calculating the amount of money to place in my Health Care Reimbursement account?  
*A. No. Your insurance deductions will be made pre-tax via payroll deduction. In addition, amounts paid for individual health, dental, disability, etc. policies can NOT be paid for through your Health Care Reimbursement account.*
3. **Q** Will this program change the way I file my income tax return?  
*A. No. Participation in this Plan will not require additional forms or entries on your tax return. However, for Dependent Care you must continue to file Form 2441.*

4. **Q** What if I don't use my entire Health Care or Dependent Care election in a plan year?  
*A. It is important to be conservative in estimating your annual expenses. Under Federal law unused contributions are forfeited. Your employer may allow you up to an additional 2 ½ months after the plan year to INCUR and Claim expenses.*
5. **Q** How can I decide whether or not it makes sense for me to participate in the Health Care Reimbursement Account?  
*A. If you incur expenses for you and/or your family that are not covered by insurance related to medical, vision, dental and hearing care, this program will save you significant tax dollars. In addition, many people find that these expenses occur at the most inconvenient time, when perhaps the dollars are not readily available to pay for these expenses. Through a Tax Benefit Plan, you can budget for these expenses through the convenience of payroll deduction while still having your annual election available for reimbursement at the beginning of the Plan Year.*
6. **Q** Must I be enrolled in my employer's Medical Insurance Plan to be eligible for this program?  
*A. No. You may participate assuming you are an employee eligible for benefits.*
7. **Q** Is there any cost to participate in this Plan?  
*A. No. Your employer pays the administrative cost of the Plan.*
8. **Q** May I change my election throughout the Plan Year?  
*A.(1) Health Care Reimbursement – Generally no! Changes in family status\* do allow for some leniency with this rule.*  
*A.(2) Dependent Care Reimbursement – An election may be changed if you change dependent care providers or if the fee for dependent care changes.*

\*Changes in family status include:

- ◆ Marriage, Divorce or legal separation
- ◆ Birth or adoption of a child
- ◆ Death of a spouse or dependent

## HOW TO ESTIMATE FUTURE MEDICAL CARE EXPENSES

The best place to start is by looking at recurring annual expenses, such as physical exams, dental and vision checkups, prescription drugs, and care for an ongoing illness. Next, determine if you will have any unusual expenses, such as orthodontic work, maternity expenses, or an additional set of glasses or contact lenses.

When calculating these expenses, do **NOT** include your contribution(s) toward your employer's insurance programs.

### IMPORTANT:

- ⇒ Only expenses not reimbursed by another provider or plan are eligible.
- ⇒ Base your election on expenses you expect to incur during the plan year, *do not include expenses you may incur in the grace period.*

### MEDICAL SERVICES

- \$ \_\_\_\_\_ Physical Exams
- \$ \_\_\_\_\_ OB/GYN Expenses
- \$ \_\_\_\_\_ Physician Office Visits & Co-Pays
- \$ \_\_\_\_\_ Psychiatrist / Psychologist
- \$ \_\_\_\_\_ Physical Therapy
- \$ \_\_\_\_\_ Immunizations
- \$ \_\_\_\_\_ Hearing Devices
- \$ \_\_\_\_\_ Diagnostic Tests (Labs, X-Rays, etc.)
- \$ \_\_\_\_\_ Prescription Costs / Co-Pays
- \$ \_\_\_\_\_ Medical Equipment
- \$ \_\_\_\_\_ Expenses applied to Deductible

### EYE CARE

- \$ \_\_\_\_\_ Eye Exam & Refractions
- \$ \_\_\_\_\_ Glasses & Frames
- \$ \_\_\_\_\_ Prescription Sunglasses
- \$ \_\_\_\_\_ Contact Lenses (including disposable)
- \$ \_\_\_\_\_ Lens Cleaners & Solutions
- \$ \_\_\_\_\_ Laser Eye Surgery

### DENTAL CARE

- \$ \_\_\_\_\_ Exams & Cleanings
- \$ \_\_\_\_\_ X-Rays
- \$ \_\_\_\_\_ Fillings, Caps & Crowns
- \$ \_\_\_\_\_ Bridges & Dentures
- \$ \_\_\_\_\_ Root Canals
- \$ \_\_\_\_\_ Orthodontics

## OVER-THE-COUNTER EXPENSES\*

- \$ \_\_\_\_\_ Formerly "by prescription" Medicines
- \$ \_\_\_\_\_ Antacids
- \$ \_\_\_\_\_ Allergy Medicines & Antihistamines
- \$ \_\_\_\_\_ Anti-diarrhea & Laxatives
- \$ \_\_\_\_\_ Cold & Cough Medicines
- \$ \_\_\_\_\_ First Aid Creams, Bandages & Supplies
- \$ \_\_\_\_\_ Muscle/Joint Pain Cream
- \$ \_\_\_\_\_ Pedialyte
- \$ \_\_\_\_\_ Pregnancy Kits/Ovulation Kits
- \$ \_\_\_\_\_ Pain Reliever (Aspirin, Ibuprofen, etc.)
- \$ \_\_\_\_\_ Prenatal Vitamins
- \$ \_\_\_\_\_ Motion Sickness Medicines
- \$ \_\_\_\_\_ Blood Pressure Monitors
- \$ \_\_\_\_\_ Thermometers
- \$ \_\_\_\_\_ Nicotine Gum & Patches
- \$ \_\_\_\_\_ Eye Drops
- \$ \_\_\_\_\_ Wart Removal Treatments
- \$ \_\_\_\_\_ Reading Glasses

The following expenses are eligible if treating a specific medical condition and accompanied with a physician's note of medical necessity.

- \$ \_\_\_\_\_ Acne Medicine
- \$ \_\_\_\_\_ Dietary & Herbal Supplements
- \$ \_\_\_\_\_ Glucosamine/Chondroitin
- \$ \_\_\_\_\_ Hormone Therapy
- \$ \_\_\_\_\_ Fiber Supplements
- \$ \_\_\_\_\_ Orthopedic Shoes & Inserts
- \$ \_\_\_\_\_ Nasal Sprays
- \$ \_\_\_\_\_ Lactose Intolerance Pills

\*Expenses for Over-the-Counter items such as "one a day" vitamins, toiletries, face creams, medicated soaps & shampoos, as well as procedures/products for cosmetic purposes are **NOT** eligible.

TOTAL \$ \_\_\_\_\_

This is not an all inclusive list. Please contact our office if you a specific question.

A recent IRS Ruling permits employers the option to extend a grace period (up to 2 ½ months) after a plan year ends in order to allow employees to both INCUR and/or SUBMIT eligible expenses. Expenses incurred and submitted during the Grace Period will be applied to your previous year's election provided a balance remains. **Please check with your employer in regards to the length of the grace period.**