

“Tax Free Benefits”

What is a Section 125 Cafeteria Plan, also known as a flexible spending plan (FSA), and how does it work?

Authorized by Section 125 of the Internal Revenue Code, an FSA is an employee benefit plan that allows employees to pay for some benefits *BEFORE* they are subject to Federal and State Income Tax or Social Security Taxes (FICA), thus **reducing the amount of taxes you pay.**

What “tax free” benefits are available?

Any premiums you contribute on behalf of yourself or your dependents who participate in your company's **health care insurance** package will be paid out of gross income, not net income. *That means your premiums are paid with “tax free” (pre-tax) dollars.*

You have the opportunity to participate in the **Dependent Care benefit**. This allows eligible employees to have their dependent i.e., child care expenses taken out of their paycheck on a “tax free” basis. This benefit will save you a minimum of 25% of your dependent care expenses. Your children must be under the age of 13 and cared for by someone with a Social Security or Federal Tax I.D. number. Under an FSA plan, each year you can use a maximum of \$5,000 pre-tax, whether you have one or more children. There are certain guidelines to follow when using this account. You can only adjust your plan allocation if your child care provider increases your rates during the plan year, or you experience one of the IRS defined family status changes. You cannot use the child care credit on your income taxes at the same time as the dependent care account under the cafeteria plan. (Please consult with your tax professional.)

The next plan benefit is the **Medical Reimbursement Account**. This is a way you can be reimbursed from the first dollar you spend for medically related expenses that are not covered by your major medical health insurance. This includes expenses for you and your dependents, including co-pays, co-insurance, and deductibles covering medical, dental, vision, as well as costs for prescription drugs, and many other non-covered medical expenses. The brochure on our website www.provess.com has a list of permissible expenses. Once you elect how much to allocate to this account, you cannot change until the new plan year. The maximum allowable amount usable per year for employees is established by your employer at the beginning of each FSA plan year.

You'll want to be very careful how much you set aside for this account because you want to use it up. **Unused medical reimbursement dollars** cannot be carried into the next plan year, thus any unused portion will be forfeited to your employer and in some cases may not be returned to you.

How can I obtain reimbursement for these expenses?

In order to be reimbursed, you need to **copy billing statements or receipts** and submit them with the **Benefit Reimbursement Voucher**. This form may be obtained from our website at www.provess.com. Your Benefit Reimbursement Voucher should be submitted with applicable receipts to PROVESS, either by mail, e-mail, or fax, as soon as possible in order to be reimbursed. (PROVESS - 100 West Broadway, Suite 240, Long Beach, CA 90802, or fax: 562.216.4888, or e-mail: admin@provess.com).

If you have any questions regarding completing reimbursements, please call the Call Center (toll free) at 866-639-5289.

How do I enroll?

You may apply through your Company, or if your company has a plan through PROVESS, you may complete the enrollment application on the PROVESS Website (www.provess.com), and mail to PROVESS at 100 West Broadway, Suite 240, Long Beach, CA 90802. If you have any questions regarding completing the application, please call our toll free Call Center at 866-639-5289.

FSA Calculation Worksheet - EXAMPLE

To help estimate your annual expenses, enter monthly amounts and multiply the total by 12. This list is not all inclusive. List other medical expenses that are not covered by your primary health insurance.

ITEM	MONTHLY EXPENSE
Medical Plan Deductibles	\$ _____
Office visit co-pays	\$ _____
Prescription co-pays	\$ _____
Physical exams	\$ _____
Vision exams / co-pays	\$ _____
Glasses, frames, contacts	\$ _____
Lasik Surgery	\$ _____
Hearing aids / batteries	\$ _____
Dental exams / co-pays	\$ _____
Orthodontia	\$ _____
Anesthesia	\$ _____
Chiropractic	\$ _____
Acupuncture	\$ _____
Physical Therapy	\$ _____
OTC medications	\$ _____
Marriage / Family Counseling	\$ _____
Birth Control	\$ _____
Diabetic Supplies	\$ _____
Other	\$ _____
TOTAL	\$ _____
X 12 = ANNUAL ESTIMATE	\$ _____

This is the amount to set aside "pre-tax", for medical reimbursements.

How it works - EXAMPLE

Following is a simple example of how it works with your payroll. In this example, at a 25% tax bracket, your taxable income is reduced \$ 100, with a consequent tax reduction of \$25.00.

Without an FSA:

Salary - taxable income	\$2,000
Taxes @ 25%	- \$500
Take home pay	\$1,500
Non covered med expenses	- \$ 100
Remaining Amount	<u>\$1,400</u>

With an FSA:

Salary - taxable income	\$2,000
FSA contribution deducted used to pay medical bills later:	- \$ 100
Adjusted Taxable income	\$1,900
Taxes @ 25%	- \$475
Take home pay / remaining	<u>\$1,425</u>

