

PLACER  
COUNTY  
OFFICE OF  
EDUCATION

*Section 125*  
*Flexible Benefit Plan*  
2010-2011 Plan Year

Frequently Asked  
Questions & Answers  
and  
125 Plan Summary of Reimbursement  
Account Arrangement



800-248-8858, Ext. 251  
May 2010



## ***Important Note...***

**This information is designed to provide you with an overview of the benefits and features of the Section 125 Plan; the Section 125 Plan Document provides detailed information about the Plan. The example of tax savings provided in this handout is based on our understanding of the tax laws. The Plan Administrator and your Employer do not provide tax advice. Please consult your tax advisor regarding your own personal situation.**

## ***FREQUENTLY ASKED QUESTIONS***

**Q. What is a Section 125 Plan?**

A. *It is an employer-sponsored benefit plan, which allows an employee to pay for certain unreimbursed medical expenses and dependent/child care expenses on a pre-tax basis, up to stated maximum limits. Employees may select from a list of available covered benefits, to pay those benefits needed by the employee.*

**Q. What does this new benefit program mean to me?**

A. *This Section 125 Plan (“Plan”) means that current after-tax expenditures for items such as dependent/child care costs, most medical expenses not covered by insurance, and disability income and medical insurance premiums, can now be paid for with pre-tax dollars. The bottom line is that you may have more dollars available as increased take-home pay, or available to purchase other benefits you and your family may need.*

**Q. Will participating in a Section 125 Plan affect my Social Security Benefits?**

A. *Yes, if FICA taxes are normally withheld from your paycheck, they are not paid on Section 125 salary reductions. Therefore, your Social Security benefits at retirement may be reduced.*

**Q. What happens if the tax laws change next year?**

A. *No one can predict what future changes may occur in tax laws. This Section 125 Plan has been set up in accordance with current laws and regulations. If the laws change, appropriate steps will be taken to bring this Plan into compliance with all new regulations.*

**Q. How do I enroll in the Section 125 Plan?**

A. *Your Employer will facilitate a group meeting to review the 125 Plan program. After the group meetings please complete an election form and turn the form into the Plan Representative or PCOE payroll.*

**Q. Must I make my election before the beginning date of the Plan Year?**

A. *Yes, you must make your benefit election by submitting your signed and properly completed election form no later than the date specified in the open enrollment packet each year for a July 1st beginning date of the Plan Year or within 30 days of employment for newly hired employees.*

**Q. Can I make changes in my election during the Plan Year?**

*A. The only time tax law regulations permit you to make an election change is if there is a valid change in your status affecting your need for a benefit. Some examples of a valid status change are: a change in legal marital status; change in number of dependents; commencement or termination of employment; change in work schedule; when a dependent satisfies or ceases to satisfy dependent eligibility requirements; change in residence or worksite. These examples may not be all-inclusive, and may include certain requirements for qualification.*

*If you elect to participate in the medical expense reimbursement account, election changes are limited in most cases to ceasing Plan participation because of termination of your employment.*

**Q. What is a qualified medical expense for reimbursement under this Plan?**

*A. Qualified medical expenses include most medical expenses that are not reimbursed by insurance or any other source. Examples include deductibles and co-insurance payments; other qualified expenses may include items not covered by insurance such as some over-the-counter medicines, vision care, dental costs, and routine physicals. See the list of expenses eligible for reimbursement on the back of this brochure. Qualified medical expenses may be either for you, or for your dependents.*

**Q. Who is considered a qualified dependent for reimbursement of qualified medical expenses?**

*A. Your dependent(s) are the individual that you claim as dependent(s) on your federal income tax return; this could include your children or your dependent spouse or another dependent (i.e. parent) who is physically not able to care for himself or herself, and if their dependent care expenses qualify for the federal income tax credit on your tax return.*

**Q. Who is considered a qualified dependent for reimbursement of dependent/child care expenses?**

*A. Your dependent(s) under the age of 13; or your dependent spouse or another dependent (i.e. parent) who is physically not able to care for himself or herself, and if their dependent care expenses qualify for the federal income tax credit on your tax return.*

**Q. Am I required to enroll in both the dependent/child care and medical expense reimbursement accounts?**

*A. No. You can enroll in either account, or both accounts.*

**Q. How do I get money from my reimbursement accounts?**

*A. You must submit a claim form, which will be provided to you, for any expenses incurred during the Plan Year. The claim form must be accompanied by proper third party documentation of the nature of the expense, date the expense was incurred, and the name of the provider of services and/or the dependent/child care provider*

*acknowledgement form. The Plan Record-Keeper will process the claim form and you will be reimbursed for your expenses. The medical expense reimbursement check will be for the expenses claimed up to the maximum benefit amount you elected for the Plan Year. The dependent/child care expense check will be for the expense you claimed up to the amount you have in your account.*

*Reimbursement payments may be electronically deposited to your checking or savings account by completing the Administrator's Authorization Agreement for Automatic Deposits form.*

**Q. What if my dependent/child care expenses claim form is for expenses in excess of the amount in my account?**

*A. You will be reimbursed only for the amount in your account, and the unreimbursed balance of the expenses will be carried forward to future months, and reimbursed as you make additional deposits into your Section 125 Plan account during the Plan Year.*

**Q. Is there a limit to the amount I can contribute to my 125 Plan?**

*A. Yes. The most that you may contribute to your Medical Expense Reimbursement Account is \$3,600 for the Plan Year. The annual limit for the Dependent Day Care Reimbursement Account is \$5,000.*

**Q. Can I switch dollars between the dependent/child care and medical reimbursement accounts?**

*A. No. The dollars must be used in each account as specified on the election form.*

**Q. What happens if I do not incur enough expenses to get back the money I deposited into my Section 125 Plan reimbursement accounts?**

*A. Any remaining dollars in your account not used for qualified expenses are forfeited to your employer. This is what is known as the "use it or lose it" provision of Internal Revenue Code Section 125. It is very important to be conservative and accurate in estimating your expenses for the Plan Year.*

**Q. Can I take the tax credit for dependent/child care or the medical expense deduction on my income tax return if I am in this Plan?**

*A. No. Expenses reimbursed under this Plan may not be used when calculating your medical expense deduction or the dependent/child care tax credit. Because it is sometimes more advantageous to take the dependent/child care tax credit on your tax return than to participate in the dependent/child care reimbursement account, you should discuss which alternative is the best for you with your tax advisor.*

# EXAMPLE

## EMPLOYEE 125 SAVINGS

### WITHOUT A 125 FLEXIBLE BENEFIT PLAN

Average Monthly Salary.....\$2,500  
Less pre-tax PERS/STRS (7% avg.)..... -175  
Taxable Income.....\$2,325  
Less Estimated Federal Income Tax  
Withholding (15%)..... -348  
Less Estimated FICA (7.65%).....-178  
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\$1,799

Less Medical Expenses.....-200  
Less Childcare Expenses.....-400  
Less Insurance Premium.....-25

Net Take-Home Pay.....\$1,174

***SPENDABLE INCOME.....\$1,174***

### WITH A 125 FLEXIBLE BENEFIT PLAN

Average Monthly Salary..... \$2,500  
Pre-tax salary reductions:  
Less PERS/STRS (7% avg.).....-175  
Less Medical Expenses.....-200  
Less Childcare Expenses.....-400  
Less Insurance Premium.....-25

Taxable Income.....\$1,700

Less Estimated Federal Income Tax  
Withholding (15%).....-255  
Estimated FICA withholding (7.65%).....-130

Net Take-Home Pay.....\$1,315

***SPENDABLE INCOME..... \$1,315***

***Increased income to you...***

***\$ 141 Monthly***  
***\$1,692 Annually***

***12% Increase!***

## **SECTION 125 FLEXIBLE BENEFITS PLAN SUMMARY OF REIMBURSEMENT ACCOUNT ARRANGEMENT**

The information below is intended to provide you with a summary of the Reimbursement Accounts portion of your Section 125 Flexible Benefit Plan. Some of the items covered are:

- Account Restrictions
- Types of expenses that may be covered
- Dependent care tax credit
- Making election changes

This is a summary only. Should you have more specific questions, please contact the Plan Administrator to obtain answers with regard to the 125 Plan or to request a copy of the Plan Document. For questions relating to the affects the 125 Plan will have on your income taxes, please contact your tax advisor.

### ***GENERAL INFORMATION***

- You may allocate specified amounts of monthly salary or wages for the reimbursement of medical care expenses, dependent day care expenses, or both.
- You may file a claim form for reimbursement of the eligible medical care or dependent day care expenses that you have incurred.
- No reimbursements will be made until the first account deposit is received from your employer.
- All claim forms will be retained for a period of 7 years.

### ***IMPORTANT RESTRICTIONS***

- You must elect to participate during the open enrollment period prior to the beginning of each Plan Year or within 30 days of employment for newly hired employees. There is no allowance for late enrollment.
- The amounts that you designate for medical reimbursement may not subsequently be used for reimbursement of dependent day care expenses and vice versa.
- If you do not file sufficient claims for reimbursement, you will lose the unused amounts. This is often referred to as the “use it or lose it” rule.
- If you are enrolled in the Medical Expense Reimbursement account and take an unpaid leave of absence during the Plan Year, you may:
  1. Prepay the contributions pre-tax, or
  2. Continue the contributions on an after-tax basis (pre-tax contributions may continue when you return to work), or
  3. Prorate the unpaid contributions over the remaining pay periods when you return to work.

Failure to make all elected contributions will result in termination of your account as of the date contributions ceased.

## ***ELECTION CHANGES***

- Dependent Day care elections are irrevocable for the period of coverage (the Plan Year), except for a change in status which affects your need for day care: a change in your legal marital status, e.g., marriage, divorce, death of a spouse, legal separation and annulment; change in number of dependents e.g., birth, death, adoption and placement for adoption; change in your or your spouse's or dependent's employment affecting benefit eligibility of you, your spouse or dependent, e.g., termination or commencement of employment, strike or lockout, change in hours, commencement or return from unpaid leave of absence, or change in worksite; dependent ceases to satisfy dependent eligibility requirement; and, a residence change affecting eligibility for coverage.
- An election change may also be allowed for a cost or coverage change, or on account of a judgment, decree or order. A mid-year cost increase when the daycare provider is a relative is not allowed. The requested change must be on account of and consistent with the change in status.
- **No changes are permitted for the Medical Expense Reimbursement Account for any reason except for termination of employment, when you can leave the Plan.** Contact your employer for special rules affecting your Plan.

## ***OPTIONS AT EMPLOYMENT TERMINATION***

- Upon termination of employment, an employee may elect to discontinue participation in the medical expense reimbursement account or to continue the payment, if eligible, either by pre-taxing the remaining contributions for the Plan Year from severance pay or paying the remaining contributions on an after-tax basis (COBRA) through the end of the Plan Year (if you have other medical coverage you are only eligible for COBRA through the current Plan Year).
- If you elect to continue the contribution on an after tax-basis, the expenses incurred under the medical expense account will continue until the premium ceases, and expenses incurred during the period of coverage will be reimbursed. The coverage may not continue beyond the current Plan Year.

If you do not elect to continue the payments, only expenses incurred during the period of coverage will be reimbursed. Coverage under the reimbursement account ceases when the payments cease.

## ***Claim for Reimbursement***

- The *medical expense reimbursements* will be for the expenses claimed up to the maximum benefit amount you elected for the year. The *dependent day care expense reimbursements* will be for the expenses you claimed up to the amount you have in your account. If the dependent day care expense claim is in excess of your account balance, the balance of the amount due will be forwarded to you as additional payments are received for the current Plan Year.
- You may be reimbursed for expenses incurred for services rendered during the current Plan Year and for up to 2 ½ months into the following Plan Year. Claims must be submitted no later than 90 days after the end of the Plan Year.

<i>Example:</i>	<i>Plan Year:</i>	<i>7-1-10 through 6-30-11</i>
	<i>Contributions Made:</i>	<i>7-1-10 through 6-30-11</i>
	<i>Expenses Can Be Incurred:</i>	<i>7-1-10 through 9-15-11</i>
	<i>Claims for Reimbursement</i>	
	<i>Must Be Submitted By:</i>	<i>9-30-11</i>

- All claim forms must be accompanied by the statement you received when the service was provided or an insurance company Statement of Benefits which has been provided by an independent third party. Only expenses properly verified by the independent third party will be reimbursed.

## ***Medical Expense Reimbursement Account***

- Your medical expense reimbursement account may be used to reimburse yourself for expenses incurred for services rendered during the current Plan Year, and up to 2 ½ months into the following Plan Year, for treatment of yourself, your spouse, and your eligible dependents.
- Medical expense reimbursements are for eligible expenses that have not been and will not be reimbursed by any other insurance or reimbursement program.
- Eligible medical expenses include deductible and coinsurance amounts under a group health plan, charges that are in excess of the amount reimbursed under a group health plan, and charges that are not covered by a group health plan such as certain corrective surgery, vision care, dental care and hearing aids.
- Eligible medical expenses must be for the prevention, diagnosis, treatment and care of a physical or mental defect, illness or disease.
- **Examples of eligible medical expenses include:**
  - Amounts that are not paid by any other medical or dental plan or program such as co-payments, coinsurance amounts, amounts in excess of insurance plan limits or many items that may not be covered under your medical or dental plan.
  - The cost of eye examinations, frames, lenses, contact lenses, hearing aids and examinations.
  - The cost of prescription drugs that may not be covered under any other program.
  - Some over the counter medicines drugs that are purchased to alleviate or treat personal injuries or sickness. Additional documentation is required from a third party in order to be reimbursed for these items. The documentation should include what, who, when and how much. In addition, the receipts should contain the name of the drug and the date and amount of the expenses.
  - To claim vitamins, herbs or nutritional supplements, you must have been diagnosed by a medical practitioner with a medical condition that necessitates these expenses.
- **Examples of expenses that are not eligible for reimbursement under the Plan are:**
  - Expenses which are merely beneficial to the general health of the person, such as exercise, fitness, nutrition, recreation, vacation, or membership in a spa or health club.
  - Amounts paid for meals while receiving medical care away from home.
  - The costs of toiletries or cosmetics.
  - Amounts compensated by insurance or any other benefit program or arrangement.
  - Cosmetic surgery and procedures unless it is for reconstruction due to disease, birth defect or accident.
  - Over the counter items, drugs or medications that are not medically necessary, or are not prescribed by your physician or health practitioner.
- For a more information regarding items or services that are eligible for reimbursement, please contact Envoy Plan Services.

## ***Dependent Day Care Expense Reimbursement Account***

- Your dependent day care expenses must be incurred to allow you (and your spouse if you are married) to work or look for work. (There are special rules relating to student spouses and disabled spouses explained later in this brochure).
- You must have income from work during the year.
- You (and your spouse if you are married) must keep up a home that you live in with one or more qualifying dependents.
- You must have made payments for dependent day care to someone you could not claim as a dependent and, if the person you made payments to was your child, he or she must have been age 19 or over by the end of the tax year.
- Child support payments and childcare payments qualifying as alimony are not qualified expenses for reimbursement.

### ***WORK REQUIREMENT***

- Work may include actively looking for work.
- Unpaid volunteer work or volunteer work for nominal salary does not qualify.

### ***ELIGIBLE DEPENDENT DAY CARE EXPENSES***

- You may allocate up to \$5,000 per tax year for reimbursement of dependent care expenses (\$2,500 if you are married and file a separate return).
- The services of a housekeeper, maid, or cook are usually considered necessary to run your home if performed in connection with care of the qualifying dependent.
- Dependent day care center expenses are also eligible dependent day care expenses if the care is for your dependent under age 13 or for any other qualifying dependent that regularly spends at least 8 hours each day in your household.
- The dependent day care center or an individual providing dependent day care must comply with all applicable federal, state and local regulations.
- A dependent day care center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment, or grant for providing services for any of those persons, regardless of whether or not the center is run for profit.
- The cost of getting a qualifying dependent to and from your home to the care location is not an eligible expense.

### **QUALIFYING DEPENDENT**

- A qualifying dependent is defined as a dependent that lives in your home and is:
  1. Your dependent under age 13 for whom you may claim an exemption deduction (but see child of divorced or separated parents, below), or
  2. Your dependent who is physically or mentally not able to care for himself or herself and spends at least 8 hours in your home daily, or
  3. Your spouse who is physically or mentally not able to care for himself or herself, and spends at least 8 hours in your home daily.
- Individuals that cannot care for themselves are defined as persons who are not able to dress, clean, feed themselves, or who have a physical or mental problem.

### **CHILD OF DIVORCED OR SEPARATED PARENTS**

#### **IF YOU ARE DIVORCED OR SEPARATED, YOUR CHILD OR STEPCHILD QUALIFIES IF:**

1. The child is under age 13 or not able to care for himself or herself, and
2. You are custodial parent and the child lives in your home.

### **PAYMENTS TO RELATIVES**

- Eligible dependent day care expenses do not include payment to a person you may claim as a dependent for federal income tax purposes.
- Payments to your child are not eligible expenses unless your child was age 19 or over by the end of the year.

### **EARNED INCOME LIMIT**

- Your eligible expenses during a calendar year may not be more than:
  1. Your earned income for the year, if you are single at the end of the calendar year, or
  2. The smaller of your earned income or your spouse's earned income for the year if you are married at the end of the calendar year.

### **STUDENT SPOUSE OF DISABLED SPOUSE**

- If you are married and, for any month, your spouse is either a full-time student or not able to care for himself or herself, your spouse will be considered to have earned income of \$200 a month if there is one qualifying dependent in your home, or \$400 a month if there are two or more qualifying dependents in your home.
- Your spouse is considered to have worked if:
  - He or she was a full-time student during each of 5 months during the calendar year, or
  - He or she was physically or mentally not able to care for himself or herself.

- A full-time student who is one who is enrolled at a school during each of 5 calendar months of the calendar year, not necessarily consecutive, for the number of hours considered to be a full-time course of study.

### ***TAX CREDIT ALTERNATIVE***

- You should be aware that you may be able to take a federal tax credit for up to 35% of the amount you pay for dependent day care expenses instead of participating in the dependent day care expense reimbursement account.
- You may use up to \$3,000 of dependent day care expenses to figure your credit if you have one qualifying dependent and up to \$6,000 if you have two or more qualifying dependents.
- Your credit can be as much as \$1,200 (\$3,000 in daycare expenses x 35%) if you have one qualifying dependent or as much as \$2,400 (\$6,000 in daycare expenses x 35%) if you have two or more qualifying dependents.
- The tax credit is a direct reduction of the tax you owe to the federal government, unlike the income exclusion of participating in the dependent day care reimbursement account. Many states also provide a state tax credit for dependent day care expenses.
- You should consult with your tax advisor as to whether the tax credit may be more favorable for you than participating in the dependent day care expense reimbursement account. You may also wish to obtain IRS Publication 503 for more information about the federal tax credit.

### ***Important Tax Information***

Regardless of whether you participate in the dependent day care Plan under Section 125 or claim the credit on your income tax, **you must provide the IRS with the name, address and taxpayer identification number (TIN) of your dependent day care provider(s) by completing either Schedule 2 of Form 1040A, or Form 2441 and attaching it to your annual income tax return.** These requirements are subject to change by the IRS. Be sure that you follow the current instructions given by the IRS for preparing your annual income tax return. Failure to provide this information to the IRS could result in loss of the pre-tax exemption for your dependent day care expenses.