

FLEXIBLE BENEFITS PROGRAM

This great tax savings benefit began when the United States Congress passed legislation that permitted taxpayers to pay for certain medical and childcare costs on pre-tax basis. It quickly became known as a Flexible Benefits Program. The IRS listed it in their tax code in Section 125, a name that is also used to describe the plan.

This tax benefit is also called a Cafeteria Plan because it allows each employee to select which benefits will be deducted from his or her pay, on a pre-tax basis. The law allowed employees to deduct the cost of childcare or certain health related costs. This includes health insurance premiums and out-of-pocket costs for doctors, dentists, hospitals, laboratory tests, prescription drugs, and vision care.

A flexible benefits program gives employees the opportunity to assemble a package of benefits, which fit specific needs. By setting aside a predetermined amount of money from each paycheck, the employee avoids paying tax on the money for these expenses. When the actual expenses are due, the invoices are turned in to the company, and the employer pays the bill from the money the employee elected to set aside. This benefit makes budgeting easy and can substantially increase the amount of an employee's spendable income.

The tax savings for most employees can be quite substantial. Employers find that the program offers added benefits for the company: a reduced tax liability and a positive impact on the company's bottom line. The exhibits on the following page provide examples of the savings employees and their employers can realize.

DEPENDENT CARE

- A cafeteria plan may also cover reimbursement of certain dependent care expenses for eligible children and/or other dependents. These expenses must be incurred to allow an employee and spouse to work unless the spouse is a full-time student or incapable of self-care.
- Dependent care expenses are covered if the dependent is age 12 or under or physically or mentally incapable of self-care. An incapacitated dependent that is age 13 or older must regularly spend at least eight hours a day in the employee's household to qualify.
- Eligible childcare can be provided inside or outside the home. However, a person who is claimed, by the employee, as a dependent, cannot provide the services. If the services are provided by a day care facility with more than six children, it must comply with applicable state and/or local requirements and laws.
- The amount of reimbursement for dependent care expenses cannot be more than: \$5,000 per calendar year; the employee's annual income; or the employee's spouse's annual income, whichever is lower. For a spouse who is disabled or a full-time student, the government assigns a maximum of \$4,800 (for two or more children) or \$2,400 (for one child) as the annual income base. Also reimbursed dependent care expenses cannot be applied toward the federal income tax credit for dependent care.
- Employees are at risk because of the "use it or lose it" rule and should consider the amount of the elections carefully.



FLEXIBLE SPENDING ACCOUNTS ELECTION FORM

CLIENT: _____

NAME: _____

MAILING ADDRESS: _____

CITY: _____ STATE: _____ ZIP: _____

SSN: _____ DOB: _____ PLAN YEAR: _____

MEDICAL FLEXIBLE SPENDING ACCOUNT

Maximum annual contribution: \$3,500.00

\$ _____ per pay period x _____ number of deductions = \$ _____ Annual Election

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

Maximum annual contribution: \$5,000.00

\$ _____ per pay period x _____ number of deductions = \$ _____ Annual Election

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 federal regulations. I understand the Medical FSA reimbursements will be available only for qualifying medical care expenses for myself, spouse, and dependents. I also understand that Dependent Care reimbursements will be available only for qualifying day care expenses. I agree to notify DEM Group, LLC if I have reason to believe that any expense for which I have obtained reimbursement is not a qualifying expense. I also agree to indemnify and reimburse DEM Group, LLC on demand for any liability it may incur for failure to withhold federal, state or local income tax or Social Security tax from any reimbursement I receive of a nonqualifying expense up to the amount of additional tax actually owed by me. I understand the benefits and I have read the reverse page. I hereby authorize and direct DEM Group, LLC to reduce my salary by the amount necessary to pay for the benefits(s) as shown above for the plan year indicated.

SIGNATURE: _____ DATE: _____

PLEASE SEE THE REVERSE FOR IMPORTANT INFORMATION
REGARDING THE ABOVE BENEFITS.
(Direct Deposit Enrollment on Reverse)

Medical Flexible Spending Account:

- Reimbursement will only be available for qualifying medical care expenses as set forth in the Plan Document and Section 213 of the Internal Revenue Code. It is your responsibility to check the eligibility of an expense prior to enrollment.
- Many Over-the-Counter items are no longer automatically eligible for reimbursement. Over-the-counter medicines require a Letter of Medical Necessity. Over-the-Counter medicines include items such as Advil, Tylenol, allergy medication, antacids, etc. Items that are **NOT** medicines (band-aids, gauze, reading glasses, braces, etc.) will still be eligible without a Letter of Medical Necessity.

Dependent Care Flexible Spending Account:

- Reimbursement will be available only for qualifying day care expenses as described in the Internal Revenue Code Section 129, the Plan document and the Summary Plan Description.
- With a Dependent Care Account, you may not be reimbursed for amounts greater than your total deposits made at the time of your claim.

Additional Information:

- Flexible Spending Account deductions will be deducted from your paycheck evenly throughout the plan year. You must indicate an annual election and a per paycheck deduction on your enrollment form.
- All elections set forth are considered irrevocable for the entire plan year unless there is a qualifying change in status. Please consult the plan document or summary plan description for a list of qualifying events.
- In the event of a change in status the change in election must be necessitated by and consistent with the change in status and the change must be acceptable under IRS Regulations.
- Expenses must be incurred during the plan year and while you are an active participant in the plan. Any expenses incurred prior to your effective date or after your termination date cannot be reimbursed.
- You must claim all elected funds by the end of the run-out period. Money left in the plan after the end of the run-out period cannot be refunded to you; this is referred to as the Use-it or Lose-it rule.
- Lost or stale dated checks can be reissued ten business days after the original check date. There is a \$25.00 check reissue fee. The check reissue request will require at least one business day to process.

REQUEST FOR DEBIT CARD

By signing below, I elect to receive a debit card for my medical and/or dependent care expenses. By electing a debit card, I understand that \$4.25, the fee associated with the debit card, will be withdrawn from my paycheck each month.

Each participant is entitled to receive one additional card for their spouse or dependent free of charge. A \$10 fee will apply for each subsequent card generated. If you would like additional cards, please contact DEM Group LLC at (586) 739-4600.

Debit Card Signature: _____ Date: _____

REQUEST FOR DIRECT DEPOSIT

Financial Institution (Name of Bank): _____

Routing Number: _____

Account Number: _____ Checking: Savings:

I hereby authorize DEM Group, LLC to electronically deposit my reimbursements for all benefits to the bank account provided. I understand DEM Group, LLC does not control when funds will be made available by my bank. If a deposit is deemed ineligible after payment, I authorize DEM Group, LLC to withdraw those funds electronically from my account. I also understand there is a one time set-up fee of \$10.00 for this service.

Direct Deposit Signature: _____ Date: _____