

Questions and Answers

Q. What is a Section 125 Plan?

It is **A.** an employer-sponsored benefit plan which allows an employee to select from a list of available benefits, those benefits needed by the employee.

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

This **A.** new program means that current after-tax expenditures for items such as medical insurance can now be paid for with pre-tax dollars. Disability income, dependent care costs, and some medical expenses not covered by insurance can now be paid for with pre-tax dollars. The bottom line is that you may have more dollars available to purchase other benefits you may need or available as increased take-home pay.

Q. Will participation in a Section 125 Plan affect my Social Security benefits?

Yes, **A.** FICA taxes 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?

No **A.** one can predict what future changes may occur in the 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 any new rules.

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

After **A.** the group meeting, your American Fidelity representative will meet with you to complete an election form. This election form must be completed and signed by each employee, whether or not you wish to elect to participate in the benefit portion of the plan.

Q. Must I make my election before the effective date of the plan?

Yes, **A.** you must make your benefit election prior to the beginning of the plan year (effective date), or prior to becoming eligible to participate in the plan.

Q. Can I make changes in my election during the plan year?

The **A.** only time tax law regulations will allow you to make a 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; termination or commencement of employment; change in work schedule; dependent satisfies or ceases to satisfy dependent eligibility requirements; change in residence or worksite. These examples may not be all-inclusive. 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 employment.

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

A. Most medical expenses not reimbursed by any other source or an insurance plan, such as deductibles and co-insurance, and items not covered by insurance, such as vision care, dental costs, and routine physicals, are qualified medical expenses. See the list of expenses eligible for reimbursement on the back of this brochure. These expenses may be either for you or for your dependents. Some cosmetic surgery procedures do **not** qualify for reimbursement. You may

only be reimbursed for expenses incurred for services rendered during the plan year, not for services rendered in a different plan year but paid in the current plan year. However, you may submit your claim for reimbursement as late as 90 days after the end of the plan year during which you incurred your expenses.

Q. What is considered a qualified dependent for reimbursement of dependent care expenses?

A. Your dependent(s) under the age of 13 or your dependent or spouse who is physically not able to care for himself or herself is considered to be a qualified dependent if their dependent care expenses could qualify for the federal income tax credit on your tax return.

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

A. No. You can enroll in either account, both accounts, or neither account.

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

A. You must submit a voucher, which will be provided to you, for any expenses incurred during the plan year. This voucher must be accompanied by proper third party documentation of the nature of the expense, date the expense was incurred, and the provider of services and/or the dependent care provider acknowledgement form. The voucher will be processed by the plan Record keeper 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 care expense check will be for the expense you claimed up to the amount you have in your account. We can electronically transfer funds to your checking or savings account, with your permission.

Q. What if my dependent care expense voucher is for expenses in excess of the amount in my account?

A. You will be reimbursed for the amount in your account, and the balance of the expenses will be carried forward to future months as additional payments are received for your account.

Q. Can I switch dollars between the dependent care and medical accounts?

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

Q. What happens if I don't incur enough expenses to bet back the money deposited in my reimbursement accounts?

A. Any expense dollars not used for expenses are forfeited to your employer. This is what is known as the "use it or lose it" provision of 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 care or the medical expense deduction on 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 care tax credit. Because it is sometimes more advantageous to take the dependent care tax credit on your tax return than to participate in the dependent care expense reimbursement account, you should discuss which alternative is the best for you with your tax advisor.