FLEXIBLE SPENDING ACCOUNT QUESTIONS & ANSWERS

A section 125 Spending Account (FSA) Program offers tremendous opportunity to reduce your taxes by paying for unreimbursed Medical Expenses and Dependent Care Expenses using pre-tax Dollars. When using this program, you will reduce your taxable income and have fewer taxes taken out of your paycheck. You will never pay Federal, State or Social Security Taxes on the money sent to the FSA, thereby giving you more spendable income.

Your Company is offering this plan as part of an enhanced employee benefits package and wants you to fully understand the advantages of a Flexible Spending Account. The following questions and answers are provided to help you better understand how you can make the most of your paycheck

Q: ***What is a Flexible Spending Account (FSA)?***

A: An FSA allows employees to convert a taxable benefit (salary) into non-taxable benefits. Under Section 125 plans, you may elect to pay for unreimbursed medical expenses (such as deductibles, co-payments, dental, and vision) and/or dependent care Expenses (such as child or aged parent care) with pre-tax dollars.

Q: ***Is Section 125 legal?***

A: Absolutely! The United States Congress created the IRC Code Section 125 to make benefit programs more affordable for employees. Even though Section 125 may sound "Too good to be true"' the program is legal and beneficial.

Q: ***Will I ever pay taxes on the money I set aside?***

A: No, you will never pay State, Federal or Social Security (FICA) taxes on the money you place in your flexible Spending Accounts.

Q: ***How can a Section 125 work for me?***

A: Your Section 125 program can make your benefits more affordable. By paying for qualified benefits before you pay taxes, you lower your taxable income, which means you pay less tax. Paying less tax usually results in more spendable income. When you take advantage of your Section 125 program, you will receive "more for your money".

Q: ***What taxes do you save when you participate in a Flexible Spending Account Program?***

A:

-Federal Income Tax:	15% to 38%
-State Income Tax (California):	3% to 11%
-Social Security Tax (FICA):	6.2% to $87,000
-Medicare	1.45%

Q: ***What happens if I submit a claim that exceeds that balance in my account(s)?***

A: Dependent Care Expense Account: This is a self-funded account. When you submit a claim for over the amount that you have deposited in your account, you will be issued only the amount you have contributed. However, you will receive an additional check after each date of contribution date until the original claim is reimbursed. You may continue to submit claims up to the amount of the election and you will receive a new check each contribution period until the full election amount is paid.

> For example, you set aside $100 per pay period for Dependent Care Assistance and the current balance in your account is $500. Then you submit a claim for $1000 for dependent care expenses. You will be reimbursed the $500 in the account, and then reimbursed $100 after each of the next five pay periods.
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> Health Care Expense Account: This is a pre-funded account. The money in your unreimbursed medical expense account is available for immediate reimbursement up to your annual elected amount.

Q: ***How will I know the balance in my Flexible Spending Account?***

A: The Plan Administrator will furnish an updated statement each time a claim is paid. The check stub will have the full breakdown of your account.

Q: ***What happens if there is money left in my account at the end of a year and I have no more reimbursable expenses?***

A: Under IRS rules, you forfeit the money in the account and the money remains as a general asset of the employer. This is known as the "use it or lose it" feature of a Section 125 plan. For this reason, you need to make conservative estimates of your reimbursable expenses prior to each plan year. You have 90 days after the end of the plan year to file claims for expenses incurred during the plan year.

A representative from CBS Administrators, LLC will be available to help you with your questions and can help you estimate what expenses will be allowable for you. Additionally, CBS Administrators, LLC is only a phone call away when questions arise throughout the year.

Q: ***What happens to the funds I set aside?***

A. The funds you set aside are deposited into two separate accounts; one for dependent care expenses and one for unreimbursed (out-of-pocket) medical expenses. Funds cannot be transferred "re-assigned" from one account to the other.

Q: ***How much money can I set aside on a pre-tax basis?***

A: You can set aside a maximum of $5,000 for this plan year for dependent care expenses if you are a single parent or married and filing a joint tax return. If you are married and filing separate tax returns you can set aside a maximum of $2,500 for this plan year. For unreimbursed (out of pocket) medical expenses, you can set aside a specific amount per plan year (check with your employer).

In addition to these limits, you may have your health insurance premiums deducted on a pre-tax basis.

DO NOT COUNT YOUR PREMIUM CONTRIBUTIONS INTO THE MAXIMUMS FOR THESE SPENDING ACCOUNTS!!

Q: ***What are eligible unreimbursed medical expenses?***

A: You can pay for a wide variety of health care expenses through your pre-tax account. Eligible expenses include, but not limited to, the following: deductibles not covered by your health plan, co-payments, dental and orthodontia expenses, prescription sunglasses, contact lenses, the percentage of the charges you pay toward medical costs (i.e. 10%, 20%, etc.), and other expenses too. Cosmetic items **are not an eligible expense and will not be reimbursed through the Flexible Spending Account Program.**

Q: ***What are eligible dependent care expenses?***

A: This program follows the IRS guidelines, which allow you to use pre-tax dollars to pay for the dependent care services for your children, as well as an incapacitated eligible parent or spouse. You are eligible if you are a single working parent; you have a working spouse; your spouse is a full-time student, and/or your spouse and/or dependent parent (as defined by IRS regulations) is disabled and unable to provide for his or her own care.

Eligible expenses include services provided:

1. Inside or outside of your home by anyone other than your spouse or another of your dependents.
2. In a licensed child care center.
3. By a housekeeper whose services include dependent care or AuPair.

Q: ***Is it better to set aside funds to pay for dependent care using the Flexible Spending Account or to take the income tax credit for child care?***

A: It is advantageous, in most cases, to have the lowest taxable income possible. Therefore, it is usually better to set aside funds for dependent care and reduce your taxable income rather than utilize the tax credit. Please consult your tax professional for additional information about your specific situation.

Q: ***If I participate in the program, will I reduce my Social Security Benefits when I retire?***

A: Since your taxable income will be reduced, your FICA contributions for Social Security could also be slightly reduced. Usually the effect will not be great (if at all) over the lifetime of covered earnings. Check with your local Social Security Office for possible effects on your benefits.

Q: ***Who pays for this program?***

A: Your employer pays the entire cost of the administration of this program.

Q: ***When does this plan begin?***

A: The plan operates on a calendar year. You should budget for expenses that you anticipate incurring during this period.

Q. ***Can I change my elections in the Section 125 program at any time during the plan year?***

A: No. You cannot change your elections during the plan year, except for certain IRS specified changes in family status. These changes include:

- Marriage
- Divorce
- Death of a spouse or child
- Birth or adoption of a child
- Termination of a spouse's employment or if spouse gains employment
- Full-time to part-time employment changes (or vice versa)

Other qualifying events may be applicable to your situation as they are always changing. If you have any questions you should contact your plan administrator or call CBS Administrators, LLC to receive an answer.

Unless you are subject to one of these qualifying events, your election is irreversible for the plan year. Once you have made your election, you cannot change the amount(s) or drop out of the plan unless you terminate employment or have a "change in family status".

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