

TRUST ADMINISTRATORS, INC. - SAMPLE

FLEXIBLE BENEFIT PLAN

EMPLOYEE SUMMARY

January 1, 2005



**PRE-TAX EMPLOYEE BENEFITS**

INSURANCE PREMIUMS  
OUT-OF-POCKET HEALTH CARE EXPENSES  
CHILD-DEPENDENT CARE EXPENSES

OVER-THE-COUNTER DRUGS, BANDAGES, DIAGNOSTIC EQUIPMENT  
ARE ELIGIBLE FOR REIMBURSEMENT  
WITHOUT DOCTOR'S PRESCRIPTION

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## TRUST ADMINISTRATORS, INC. - SAMPLE FLEXIBLE BENEFIT PLAN - EMPLOYEE SUMMARY

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Plan Year: Start: January 1, 2005 End: December 31, 2005

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### Overview of the Plan

It is now open enrollment for the Flexible Benefit Plan (Plan). The Plan allows you to pay for health insurance premiums, health care expenses not covered by insurance and dependent care expenses with **untaxed salary**. Internal Revenue Code section 125 allows you to exchange taxable salary to pay for these expenses. Your plan contributions are not subject to payroll taxes (social security, federal or state income taxes). As a result, you create tax free money to spend as you wish. The **TAX-FREE** savings is never taxed (see Savings Examples at page 3).

The higher your tax bracket, the more you save! **The Plan has three (3) PRE-TAX accounts:**

**1. Insurance Premiums:** This account is used to convert your cost for insurance premiums charged by your employer (e.g. for spousal or dependent coverage) from an after-tax expense to a pre-tax expense. There are no claims to file. As a convenience, you are automatically enrolled in this account and your tax savings will be included with each paycheck.

Next, select one or both Reimbursement Accounts:

**2. Health Care:** This account is used to reimburse you for health care expenses not paid by insurance (e.g. drugs, glasses, chiropractors, deductibles, office visits, mileage). For planning purposes, you may include the out-of-pocket expenses of your spouse, children and other dependents even if covered by another employer's plan. Include all their health care expenses except insurance premiums.

**Nonprescription Drugs, Equipment and Diagnostics Are Reimbursable Without A Prescription**  
Over-the-counter drugs (antacids, allergy medicine, pain relievers and cold medicine) are now eligible for reimbursement without a physician's prescription. Other reimbursable items are equipment (crutches, bandages, thermometers, nicotine patch and gum) and diagnostics (insulin and pregnancy kits). For more information, refer to pages 4 and 5 of this Summary or go online to [www.trustadmin.com](http://www.trustadmin.com) at the "Employee" section.

**Your Health Care Maximum Contribution is: Amount To Be Determined By Each Employer**

**3. Dependent Care:** This account is used to reimburse you for adult or child day care expenses (for children to age 13, no age limit for adult care) so you (and your spouse, if married) can go to work. **You may contribute up to \$5,000 per calendar year per household.**

**NEW Tax Rules for Dependent Care Tax Credit:** Tax Credits are increased to \$3,000 from \$2,400 for one dependent and up to \$6,000 from \$4,800 for two or more dependents. The Tax Credit income brackets have also changed. Worksheets are available at page 7 to help you determine whether the Tax Credit or the Flex-Plan is better for you. Also, it is now possible to claim the tax credits and contribute \$5,000 to the Plan if you have two or more dependents.

Your contributions to the Reimbursement Accounts will be deducted evenly from each paycheck and credited to your accounts. Trust Administrators, Inc. (TAI) will administer the Plan. As you incur expenses, submit claims to them. TAI will reimburse you with the untaxed money from your accounts. All claims are confidential and comply with HIPAA's privacy rule.

### ✓ **CHECK YOUR ACCOUNT ONLINE**

Go to: [www.trustadmin.com](http://www.trustadmin.com) • Click Account Lookup  
Type: Your Social Security Number  
Password: It's a Secret!  
"ACCESS" NUMBER: Sample 90097554

**Planning Your Expenses**

Using the Worksheets at pages 6 and 8, estimate your health and dependent care expenses for the Plan Year. Include health care expenses for you, your spouse and dependents, including domestic partners, even if not covered by your employer's insurance plan(s). Include expenses that are routine and predictable. That's because the IRS says the unclaimed money in your accounts at year end is not returned to you, it reverts to the employer. TAI will advise you periodically (based on the reimbursement schedule) about your account balances so you won't forfeit any money.

When planning, you should also contact your doctor and dentist about future uninsured services for you (and your family) so you may include those expenses in the Plan.

For your health care account, unclaimed money before year end can be used for saline solution, extra teeth cleanings, over-the-counter drugs, prescription drugs, prescription sunglasses, etc.

**Changing Your Elections**

During the plan year, you may increase, decrease or stop your contributions (or enroll in the Plan) if you have a "Life" event. Life Event Examples are:

- Birth, adoption, change in the number of dependents, annulment, death, marriage, legal separation or divorce;
- Significant benefit changes for you, spouse, dependents (e.g. includes child care, Medicaid or Medicare, HIPAA election, custody); and
- Work hours, dependent or spouse's job (gain or loss), change of residence or worksite or unpaid leave by either spouse or dependent.

**Reimbursement of Expenses**

When you incur expenses, complete a Claim Form. The term "incurred" means the date services are performed, not the date paid. You may not claim expenses before the start of any plan year or the date of your enrollment. You have an extra 90 days after the end of each plan year to submit last year's expenses - known as the "grace" period. If your employment terminates during the year you may have the option of electing COBRA-Flex for health care expenses (you continue to pay into the account with after-tax money) or may claim expenses up to your termination date through the grace period.

**EXAMPLES OF EMPLOYEE SAVINGS**

<b>Example 1</b>	<b><u>With Plan</u></b>	<b><u>No Plan</u></b>	<b>Example 2</b>	<b><u>With Plan</u></b>	<b><u>No Plan</u></b>
Employee Income	\$24,000.00	\$24,000.00	Family Income	\$65,000.00	\$65,000.00
Pre-Tax Deductions			Pre-Tax Deductions		
Health Care Expenses	<u>-1,200.00</u>	<u>-0.00</u>	Health & Day Care	<u>-6,300.00</u>	<u>-0.00</u>
Taxable Pay	\$22,800.00	\$24,000.00	Taxable Pay	\$58,200.00	\$65,000.00
Estimated Taxes	<u>5,848.00</u>	<u>-6,396.00</u>	Estimated Taxes	<u>-23,077.00</u>	<u>-27,552.00</u>
After-Tax Income	\$16,952.00	\$17,604.00	After-Tax Income	\$35,123.00	\$37,448.00
Health Care Expenses	<u>0.00</u>	<u>-1,200.00</u>	Health & Day Care	<u>0.00</u>	<u>-6,300.00</u>
<b>Spendable Income</b>	<b>\$16,952.00</b>	\$16,404.00	<b>Spendable Income</b>	<b>\$35,123.00</b>	\$31,148.00
<b>Tax-Free Income with Plan:</b>	<b>\$548.00</b>		<b>Tax-Free Income with Plan:</b>	<b>\$3,975.00</b>	

Your savings may differ based on exemptions, deductions, contributions to retirement, etc.

**ABOUT YOUR HEALTH CARE REIMBURSEMENT ACCOUNT (HCRA)**

**Includes Prescription & Nonprescription Drugs • Medical & Diagnostic Equipment**

Your HCRA may be used by you, your spouse and all dependents (including domestic partners) listed on your federal tax return. You are reimbursed up to your annual election, less prior reimbursements. No extra forms are required when filing your taxes. While nonprescription drugs are not eligible on an individual basis, they are reimbursable in a Flex-Plan.

• **Eligible Expenses:** The Internal Revenue Code defines health care as: (a) the diagnosis, treatment or prevention of illness or disease or for the purpose of affecting any structure or function of the body; and (b) transportation primarily for and essential to medical care. Mileage is covered at 12 cents per mile for 2003, 14 cents for 2004 and 15 cents for 2005.

**Reimbursement for Nonprescription Drugs, Medical Equipment, Medical Supplies and Diagnostic Equipment:** IRS Revenue Ruling 2003-102 dated 9/3/03 allows reimbursement for over-the-counter drugs. The Ruling states that antacids, allergy medicine, pain relievers (e.g. Aspirin, Advil, Alleve, Excedrin, Motrin, Tylenol) and cold medicine are eligible for FSA reimbursement. Revenue Ruling 2003-58 issued on 5/15/03 allows reimbursement for medical equipment (crutches, thermometers), medical supplies (bandages - adhesive strips, ACE type) and diagnostics (insulin and pregnancy kits). Smoke cessation programs are eligible as well as the nicotine patch and gum without a prescription. See next page for sample list of covered items.

If you are currently enrolled, you may re-submit expenses back to the beginning of the plan year, but not before 1/1/03. While the IRS has liberalized the rules for reimbursement of nonprescription drugs, a physician's prescription is still required for vitamins for prenatal care.

Your health care expenses are not subject to underwriting and referral by your primary care physician is not required. You may also claim expenses for dependents that do not reside with you, but are claimed for tax purposes (e.g. a child attending college in another city or state). See the list below or visit TAI's website for additional information.

• **Ineligible Expenses for Reimbursement:** Insurance premiums (yours or spouse); elective cosmetic surgery; toiletries and other hygiene items; cosmetics; nursing care for a normal, healthy baby; maternity clothes; or bottled water. Other examples are toothpaste and skin ointments without a drug compound or component, condoms and expenses for your general health such as exercise, nutrition or vacations. Insulin and saline solution are covered.

Plan Year Maximum Contribution: Amount To Be Determined By Each Employer

**ELIGIBLE HEALTH CARE EXPENSES**

Acupuncture	Deductibles (family)	Hypnosis for illness	Psychologists
Air Conditioner (allergy)	Dental (crowns/bridges/bonding)	Indian Healing Rites	Seeing Eye Dog & Upkeep
Ambulance Hire	Drugs (by prescription)	Invalid Care	Smoke Cessation w/o Dr.
Artificial Limbs	Drug & Alcohol Rehab	In vitro Fertilization	Special Education
Biofeedback	Eyeglasses + Exams	Lasik Eye Surgery	Special Plumbing
Birth Control Pills	Hair Transplants (per Dr.)	Lip Reading Service	Telephone for deaf
Chiropractors	Handicapped Schools	Lodging @ \$50 a night	TMJ surgery/treatment
Christian Scientist	Health Club Dues (per Dr.)	Marital Counseling	Spa or Pool per Dr.
Circumcision	Hearing Devices	Massages (State Licensed)	Vaccines
Contact Lenses + Supplies	Herbalist (State Licensed)	Medical Equipment	Vitamins per Dr. (prenatal)
Co-Payments (office visits)	Holistic (State Licensed)	Mileage at 15¢	Weight Loss per Dr.
Cosmetic Surgery (per Dr.)	Homeopathic (State Licensed)	Orthodontia	X-rays

Sample List of Equipment, Supplies, Diagnostic Devices  
and Over-The-Counter Drugs Eligible For Reimbursement  
(IRS Revenue Rulings 2003-58 and 2003-102)

ANTACIDS/STOMACH

Alka-Seltzer  
Amphojel  
Anusol  
Bromo Seltzer  
Citrucel  
Dulcolax  
Ex-Lax  
Fibercon  
Fleets Enema  
Gas-X  
Maalox  
Milk of Magnesia  
Mylanta  
Pepcid  
Pepto-Bismol  
Prilosec OTC  
Rolaids  
Tagamet  
Tums  
Zantac

COLD-ALLERGY

Actifed  
Afrin  
Antihistamines  
Benadryl  
Chloraseptic  
Chlor-Trimeton  
Claritin  
Cold-Eeze  
Comtrex  
Coricidin  
Dimetapp  
Drixoral  
Nyquil  
Robitussin  
Sucrets  
Sudafed  
Suphedrin  
Theraflu  
Vics 44D

DIAGNOSTIC DEVICES

Blood sugar test kits  
HIV test kits  
Pregnancy test kits  
Thermometers

MEDICAL EQUIPMENT

Beds (special needs)  
Breast pump  
Crutches  
Ionizer  
Wheelchair

MEDICAL SUPPLIES (see ointments)

Ace "Elastic" bandage  
Adhesive strips (Band-aids)  
Adhesive tape  
Butterfly bandages  
Cotton balls  
Insulin  
Q-tips  
Nicotine Patch and Gum  
Saline solution  
Sterile gauze pads

PAIN RELIEVERS

Aspirin  
Advil  
Alleve  
Anacin  
Bayer  
Bufferin  
Cystex  
Doans  
Dramamine  
Excedrin  
Ibuprofen  
Legatrin  
Midol  
Motrin  
Naproxen  
Pamprin  
Tylenol

OINTMENTS & TOPICAL TREATMENTS (supplies)

Alcohol ("isopropyl")  
Bacitracin  
Bactine  
Caladryl  
Calamine  
Clearasil  
Corn removal medicine  
Cortaid ("hydrocortison")  
Freezone  
Gyne-Lotrimine  
Hydrogen peroxide  
Lanacain  
Lamisil  
Lotrimin  
Monistat  
Neosporin  
Polysporin  
Preparation H  
Tioconazole  
Uristat  
Wart remover medicine  
Witch hazel  
Zapzit

Be sure to claim mileage at 15¢ per mile for 2005 and sales tax as applicable for OTC Drugs.

Note: The above list is not intended to be inclusive of products eligible for health care reimbursement. As a general rule, if a product is within the "categories" listed above, it would be eligible for reimbursement. If you have questions, contact TAI.

**ABOUT YOUR HEALTH CARE REIMBURSEMENT ACCOUNT (HCRA)  
 - WORKSHEET -**

**Use the Worksheet below to estimate Health Care Expenses  
 For You and Your Family**

**2005 Tax Tables**

Income Tax Brackets	Filing Status			
	Single	MFJ	MFS	HOH
\$1 - \$7,300	17.65	17.65	17.65	17.65
7,301 - 10,450	22.65	17.65	22.65	17.65
10,451 - 14,600	22.65	17.65	22.65	22.65
14,601 - 29,700	22.65	22.65	22.65	22.65
29,701 - 39,800	32.65	22.65	32.65	22.65
39,801 - 59,400	32.65	22.65	32.65	32.65
59,401 - 59,975	32.65	32.65	32.65	32.65
59,976 - 71,950	32.65	32.65	35.65	32.65
71,951 - 90,000	35.65	32.65	35.65	32.65
90,001 - 91,400	29.45	26.45	29.45	26.45
91,401 - 102,800	29.45	26.45	34.45	26.45
102,801 - 119,950	29.45	26.45	34.45	29.45
119,951 - 150,150	29.45	29.45	34.45	29.45
150,151 - 163,225	34.45	29.45	34.45	29.45
163,226 - 166,450	34.45	29.45	36.45	29.45
166,451 - 182,800	34.45	29.45	36.45	34.45
182,801 - 326,450	34.45	34.45	36.45	34.45
326,451 & More	36.45	36.45	36.45	36.45

Add State Taxes of 3% to 9% for Extra Savings.  
 Social Security Limit is \$90,000; salaries above  
 that amount save 6.2%, but Medicare payments  
 of 1.45% continue.

Complete Health Care List  
 and Tax Calculator at  
[www.trustadmin.com](http://www.trustadmin.com)

Questions or Assistance  
**800-932-3539**

Be sure to include over-the-counter  
 nonprescription drugs: allergy medication,  
 aspirin, antacids, cold medicine and pain  
 relievers for you and family members.

**Health Care Worksheet**

List your family's out-of-pocket health care  
 expenses for the plan year (except premiums).

**A. Medical Expenses**

- 1. Deductibles -----
- 2. Co-Payments -----
- 3. Physicals -----

**B. Dental Expenses**

- 1. Deductibles -----
- 2. Co-Payments/Crowns -----

**C. Prescription & Nonprescription Drugs**

- 1. Copays (Generic/Brand) -----
- 2. Nonprescription -----

**D. Vision Care Expenses**

- 1. Exams/Co-Payments -----
- 2. Glasses/Contacts/Supplies -----

**E. Other Health Care Expenses**

- 1. Mileage -----
- 2. Parking -----
- 3. Lodging [to \$50 per night] -----

**TOTAL EXPENSES  
 TAX SAVINGS**

Multiply Total Expenses  
 by Tax Bracket

\$

### **ABOUT YOUR DEPENDENT CARE REIMBURSEMENT ACCOUNT (DCRA)**

Your DCRA is for expenses so you (and your spouse, if married) can go to work. You are reimbursed for claims up to your account balance (the excess claimed is reimbursed as new contributions are received).

A "Dependent" is defined as: (1) your child under age 13 for whom you have custody (applies if divorced or legally separated and former spouse claims child for tax purposes unless separate agreement); or (2) a spouse or dependent that is physically or mentally incapable of self-care; no age restriction. Also, your dependent must reside with you for 8 hours or more per day and be claimed on your tax return.

If your spouse is a full-time student for at least five months of the year or disabled, your monthly maximum reimbursement for dependent care expenses is \$200 for one dependent and \$400 for two or more dependents. If your spouse works part-time or is self-employed, you cannot receive more than the lowest paid spouse's salary or Schedule C net income, respectively. Adjustments possible when filing your taxes.

**Contribution Limit: \$5,000 per calendar year per household for one or more dependents.**

- **Eligible Expenses:** Babysitters (neighbors and their children) state licensed day care centers, preschool (includes lunches and educational services), summer day camp, nurses, tuition (up to, but not including the first grade), and before or after school care. You will need the Tax I.D. Number of each day care center or the social security number for all individuals providing services since this information must be listed on Form 2441 when you file your taxes (same rule as tax credit).

- **Ineligible Expenses:** Food, clothing, shelter, child support, overnight camp, transportation, expenses during non-working hours (e.g. Saturday night movie), or payments to dependents or your children under the age of 19. You cannot be reimbursed for expenses if a tax credit is taken.

### **USING THE TAX CREDITS AND THE DCRA**

**Example 1.** Employee with a full time working spouse, one child and day care expenses of \$2,000. Employee elects to contribute \$2,000 to the DCAP. Unanticipated expenses due to overtime creates an extra \$600 of day care expenses by year end. Employee can apply a Tax Credit to only \$600 since \$3,000 is the credit cap for one dependent.

**Example 2.** Same facts as "1" above except Employee enrolls for \$3,000. In this example, no credit is available because the enrollment amount (\$3,000) is the same as the credit cap of \$3,000.

**Example 3.** Employee with two children and a spouse working full time, enrolls in the DCAP for \$4,000 and expenses are \$6,000. In this example, since the credit cap is \$6,000 for two or more dependents, Employee can apply the Tax Credit to \$2,000 - see next page.

**Example 4.** Employee with two children, a non-working spouse, expenses of \$6,000. In this case, neither the Tax Credit nor the DCAP is available because the Employee's spouse does not work.

**Enrollment After Plan Year Starts:** Calendar year plan and Employee enrolls in July. Employee spends \$10,000 for day care expenses and was not enrolled in a prior plan. In this case, he may forgo using the Tax Credit for expenses during the first six months and enroll in the DCAP for the full \$5,000 deducting \$833.32 for six months. You may prorate the \$5,000 over a short period. Next year, the deduction would revert back to \$416.66 per month to not exceed the \$5,000 calendar year cap.

**ABOUT YOUR DEPENDENT CARE REIMBURSEMENT ACCOUNT (DCRA)  
 - WORKSHEET -**

**Table I • 2005 Tax Rates**

Income Tax Brackets	Filing Status	
	MFJ	HOH
\$1 - \$7,300	17.65	17.65
7,301 - 10,450	17.65	17.65
10,451 - 14,600	17.65	22.65
14,601 - 29,700	22.65	22.65
29,701 - 39,800	22.65	22.65
39,801 - 59,400	22.65	32.65
59,401 - 59,975	32.65	32.65
59,976 - 71,950	32.65	32.65
71,951 - 90,000	32.65	32.65
90,001 - 91,400	26.45	26.45
91,401 - 102,800	26.45	26.45
102,801 - 119,950	26.45	29.45
119,951 - 150,150	29.45	29.45
150,151 - 163,225	29.45	29.45
163,226 - 166,450	29.45	29.45
166,451 - 182,800	29.45	34.45
182,801 - 326,450	34.45	34.45
326,451 & More	36.45	36.45

Add State Taxes of 3% to 9% for Extra Savings.  
 Social Security Limit is \$90,000; salaries above that amount save 6.2%, but Medicare payments of 1.45% continue.

**Table II • Tax Credits**

ADJUSTED GROSS INCOME	Credit Percentage
\$1 - \$15,000	35%
15,001 - 17,000	34
17,001 - 19,000	33
19,001 - 21,000	32
21,001 - 23,000	31
23,001 - 25,000	30
25,001 - 27,000	29
27,001 - 29,000	28
29,001 - 31,000	27
31,001 - 33,000	26
33,001 - 35,000	25
35,001 - 37,000	24
37,001 - 39,000	23
39,001 - 41,000	22
41,001 - 43,000	21
43,001 & Over	20

**Dependent Care Worksheets**

**Worksheet 1.**

Which Saves You The Most Money . . .  
 The Flex-Plan or Tax Credit?

- List Dependent Care costs for the Plan (up to \$5,000 for 1 or more dependents - a household limit). \_\_\_\_\_
- Find taxable income in Table I and multiply Tax Rate by Line 1. \_\_\_\_\_
- List Dependent Care costs for the Tax Credit; up to \$3,000 for one dependent and \$6,000 for two or more. \_\_\_\_\_
- Find Adjusted Gross Income (AGI) in Table II and multiply % by amount in Line 3. \_\_\_\_\_

**Worksheet 2.**

For Two or More Dependents . . .  
 Use After Completing Worksheet 1 with contributions of \$5,000 to the Flex-Plan

- Enter expenses above \$5,000 (up to \$1,000) for Line 1. \_\_\_\_\_
- Find Adjusted Gross Income in Table II. Multiply tax credit % by amount in Line 1. \_\_\_\_\_

Note: The amount in Line 2 should be added to the Flex-Plan's dependent care contributions when filing Form 2441.

Tax Credits are applied to taxes owed. They are not a dollar-for-dollar tax savings from salary like Flex-Plans.

Tax Credits (Code §21) and Flex-Plans (Code §125) both require Form 2441 to be attached to individual's Tax Form 1040.