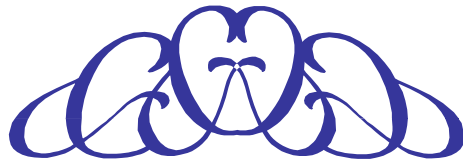


COUNTY OF MENDOCINO
FLEXIBLE BENEFITS PLAN



Administered by Delta Health Systems

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THE FLEXIBLE BENEFITS PLAN

If you are eligible for The Health Plan, you may participate in The Flexible Benefits Plan. The Flexible Benefits Plan allows you to save money by using pre-tax dollars to pay for unreimbursed health and dependent care expenses. Many employees and their families are able to increase their take home pay by using this program.

HOW THE ACCOUNTS WORK

The program allows you to set aside pre-tax dollars to pay for the same kinds of health and dependent care expenses that you would declare as tax deductions or credits (dependent care only) on your individual tax return. Many employees may find that the Flexible Spending Accounts will give higher tax savings than the tax credits or deductions will.

HOW TO USE THE PROGRAM

Every year you elect to put aside pre-tax dollars in one or both of the two Flexible Spending Accounts:

- * Dependent Care Account (DCA).
- * Health Care Account (HCA).

You can fund your account with pre-tax salary contributions. Funds will be withdrawn from these accounts to reimburse you for eligible dependent care or health care expenses.

Here are a few examples of how the Flexible Spending Accounts can be used:

- * You can use your Health Care Account to reimburse yourself for contact lens prescriptions.
- * Your son has been told that he will need braces. You can set aside before-tax dollars to cover the cost of orthodontia expenses.
- * Your neighbor takes care of your pre-school children while you work during the

day. You are able to pay her and be reimbursed by the Dependent Care Account.

You do not pay income or Social Security tax on funds deposited into the accounts, so you have more spendable income. The County will automatically make these deposits on your behalf each pay period. (Certain rules apply which are explained later.)

After you incur an eligible expense and pay for it, you simply attach a receipt or other proof of payment to a claim form and send it directly to our plan administrator, Delta Health Systems. Delta Health Systems will review your request for reimbursement and forward a check directly to you.

If your HCA claim is greater than the contribution you elected for the year, the reimbursement will be limited to your annual contribution. If your DCA claim is greater than your contribution up to that point, you will be reimbursed up to the accrued contribution, and additional reimbursement checks will automatically be issued as future contributions are made.

USE IT OR LOSE IT

You may submit expenses for reimbursement up to 90 days after the plan year ends or 90 days from the date you cease contributions (because of a family status change or termination). Under the IRS rules any money left in your account after those deadlines will be forfeited. Toward the end of the plan year, Delta Health Systems will send a report to your home which will show any funds that are remaining in your account.

You will receive quarterly statements showing your account balance and account activity. If you have any questions at other times regarding your account, please call Delta Health Systems.

TAX ADVANTAGES

This chart illustrates a family's potential in-

crease in spendable income by using the ac-

Tax Credit vs. Spending Account

	Tax Credit	Spending Account
Combined Income	\$40,000	\$40,000
Annual Contribution (before tax)	<u>0</u>	<u>\$ 4,000</u>
Gross Taxable Income	\$40,000	\$36,000
Annual Contribution (after tax)	\$ 4,000	0
Estimate State & Federal Tax	<u>\$ 7,709*</u>	<u>\$ 7,095</u>
Spendable Income	\$28,291	\$28,905
Extra Spendable Income	0	\$ 614
*Including Tax Credit		

count. The chart assumes the employee has a spouse and two children, lives in California, and has a combined family income of \$40,000. The DCA contribution is \$4,000.

By using the Flexible Spending Account, this family will have \$614 extra dollars in take home, spendable pay.

The Flexible Spending Accounts may not be for everyone. If you are a working parent, you should compare the tax advantage of the Dependent Care Account and federal child care tax credits. In general, if your adjusted gross income is less than \$18,000, you will pay less federal income tax by taking the child care credit on your federal taxes instead of using the DCA. For households earning more than

\$18,000, the DCA will probably be the better choice.

If your medical and dental expenses not covered by the medical plan will be more than 7.5% of your income for the year, you may want to claim these expenses on your federal income tax return. The key advantage of using the HCA is that eligible medical and dental expenses can be reimbursed on a pretax basis from the first eligible dollar of expenses.

The following sections will give you more detail about the two Flexible Spending accounts so that you can decide if they are right for you.

HEALTH CARE ACCOUNT

You can deposit a maximum of \$5,000 per year from your pre-tax salary in your Health Care Account (HCA) each year. If you and your spouse are both employees of the county, the two of you are limited to \$5,000. These before-tax dollars can be used to reimburse you for eligible medical expenses including the following:

- * Deductibles, co-payments and unreimbursed medical expenses under the medical plan.
- * Medical, dental and orthodontia expenses not covered under any health plan including prescription drugs, co-payments or deductibles.
- * Eye examinations, lenses (including contact lenses) and frames.
- * Any other expenses allowed as medical deductions by the IRS on your federal tax return that are not reimbursed by any other plan.

Page 7 contains a chart with more examples of HCA eligible expenses.

Below are examples of items that the IRS has deemed not eligible HCA expenses:

- * Health spa and club membership.
- * Non-medical expenses such as electronic air filters and hot tubs unless prescribed by

a physician.

- * Cosmetic surgery.
- * Any illegal treatment.
- * Marriage counseling.
- * Weight reduction or smoking cessation programs.
- * Premiums for health insurance not sponsored by the employer.

DEPENDENT CARE ACCOUNT

You decide how much you want to deposit in your DCA - up to the IRS allowable \$5,000 per year or \$2,500 if you are married and file an individual return. (According to federal law, it is your filing status - joint or individual return - not the number of children or your marital status that establishes this limit.)

Reimbursements for dependent care have the following requirements:

- * The care must be necessary in order for you or your spouse to work, or to attend school full-time.
- * The amount to be reimbursed must not be greater than your annual income or your spouse's, whichever is lower.
- * If your spouse is a full-time student or is mentally or physically incapacitated, your spouse's financial status will be based on an assumed monthly income of \$200 for one and \$400 for two or more eligible dependents.

If your dependent is a child:

- * He or she must be younger than 13 and dependent upon you for at least 50% of his or her financial support.
- * Care may be provided either inside or outside your home, but it may not be provided by anyone considered your dependent for income tax purposes, such as one of your older children.
- * And if care is provided by a facility that cares for more than six children, the facility must be licensed.

If your dependent is an adult:

- * He or she must be physically or mentally incapable of caring for himself or herself.
- * He or she must be dependent upon you for at least 50% of his or her financial support.

* Care may be provided either inside or outside your home: however, expenses outside your home (such as a nursing home) are eligible only if the dependent regularly spends at least eight hours each day in your household.

* You will be reimbursed for care of an eligible adult dependent even if you may not claim the person as a dependent for income tax purposes because his or her income is too high. IRS Publication 503 contains more information on this topic.

The federal income tax laws say that you will need to identify the provider of dependent care. When identifying the provider, you must include the provider's name, address and taxpayer identification number (TIN). This same requirement applies to the federal child care tax credit.

Examples of Eligible Expenses

- * Special care for mentally or physically handicapped dependents.
- * Care givers for a dependent or spouse who lives with you.
- * Programs for children up to age 13 while schools are not in session.
- * Preschools and day-care centers.

Examples of Ineligible Expenses

- * Payments to a dependent relative (such as an older brother or sister).
- * Expenses for food and clothing.
- * Education expenses from the first grade on.
- * Health care expenses for your dependents.
- * Overnight camps.
- * Baby-sitting during nonworking hours.

RULES TO REMEMBER

The federal government sets certain rules governing these plans:

- * The Dependent Care Account (DCA) and the Health Care Account (HCA) are separate. You cannot use funds from one account to pay for expenses of another.
- * You may submit expenses for reimbursement up to 90 days after the end of the plan year.
- * If you don't use all of the money in your account, it will be forfeited.

- * You cannot request reimbursement for an expense that has been reimbursed by any other insurance or tax-free plan.
- * Once you have made your decision, you cannot change your amount of contribution for the year, except if there is a change in family status such as your spouse's loss of employment medical coverage, death of a child or spouse, legal separation or divorce, birth or adoption, or marriage.
- * Expenses have to be incurred during the plan year to qualify for reimbursement.
- * If you terminate employment with the County, you are able to continue participation in the Flexible Benefits Plan on an after-tax basis through a federal law called COBRA.

Finally, if your spouse has a reimbursement account plan at his or her company, you may want to compare plans to see which is more advantageous. Employers are able to put certain restrictions on their reimbursement accounts, which may make one a better choice for you.

ELIGIBLE EXPENSES

The following are some examples of expenses eligible for reimbursement under the HSA. These expenses have been specifically approved by the IRS or courts. This list includes some expenses that may already be covered to some extent under our Health Plan.

- * Abortions.
- * Acupuncture.
- * Alcoholism or drug addiction treatment.
- * Ambulance service.
- * Artificial limbs.
- * Braces.
- * Chiropractors' fees.
- * Christian Science practitioners' fees.
- * Contact lenses.
- * Crutches.
- * Deductibles and co-payments.
- * Dental/orthodontic fees (except cosmetic procedures).
- * Developmentally disabled persons' cost for special home.
- * Diagnostic X-ray and laboratory fees.
- * Doctors' fees.

- * Drugs (insulin, prescription drugs, or OTC medicine or drugs**).
- * Expenses in excess of coverage limits such as hospital private room charges above the semiprivate rate.
- * Eyeglasses, including exam fee.
- * Fertility treatment.
- * Handicapped persons' special schools.
- * Hearing care and aids.
- * Hospital bills.
- * Lamaze classes.
- * Medical Supplies.
- * Nurses' fees (including nurses' board and Social Security tax where paid by taxpayer).
- * Nursing homes.
- * Oxygen.
- * Prescription birth control pills and devices.
- * Psychologists fees.
- * Routine physical exams, immunizations.
- * Special equipment (such as a hand control installed in a car for use by handicapped persons).
- * Surgical fees (except cosmetic surgery).
- * Therapy treatments (medical).
- * Vitamins by prescription.
- * Wheelchair.

** To qualify for reimbursement the Over the Counter Medicine or Drug must meet the following criteria:

- a. The medicine or drug is being taken to alleviate or treat personal injury or sickness;
- b. The specific medicine or drug is being taken for its intended use;
- c. The request for reimbursement includes a receipt which contains the date of purchase, the name of the product and the quantity; and
- d. The specific medicine or drug does not constitute a dietary supplement, which is merely beneficial to the general health of the plan participant.