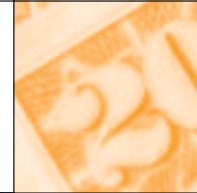




Qualified Plan Services

Our job is to make your job easier.

R E D U C E T A X E S



L O W E R H E A L T H C A R E C O S T



Section 125 Cafeteria Plan

Flexible Spending Accounts

Tax Savings For You And Your Employees

S O C I A L S E C U R I T Y T A X S A V I N G S



D E P E N D E N T C A R E A S S I S T A N C E



Tax Savings for You and Your Employees

What is a Flexible Spending Account Plan?

Sometimes referred to as a cafeteria plan, flex plan, or a Section 125 plan, a Flexible Spending Account (FSA) lets employees set aside a certain amount of each paycheck into an account — before paying income taxes. During the year, employees are reimbursed from this account for expenses such as healthcare and dependent daycare.

Reimbursements of qualified expenses are *tax-free*.

When employees use tax-free dollars to pay for these expenses, they realize an increase in spending power and substantial tax savings.

The company saves too — about 8% (FICA match) on every dollar employees contribute to the plan.

What benefits can an employer include in an FSA Plan?

Plan 1 Employee-paid insurance premiums. Payroll-deducted health insurance plan premiums and other employer-sponsored insurance coverages, including dental, disability, accident, and group-term life insurance premiums.

Plan 2 Medical expenses not covered by insurance. Typical expenses include eye exams, eyeglasses, eye surgery, contact lenses and solutions, dental visits, orthodontic care, medical examinations, mental healthcare, chiropractic services, over-the-counter medicines, prescription drugs, deductibles, insurance co-pays, & expenses not reimbursed by health insurance.

Plan 3 Adult and child daycare expenses. The cost to care for a dependent while the employee and spouse (if married) work.

Plan 4 Adoption expenses. Qualified adoption expenses include those fees and related expenses incurred for the adoption of a qualified child.

Benefiting You

Your company will recognize the following savings with an FSA Plan.

1 You will save 8% or more on every dollar your employees redirect to the FSA plan. That's because social security taxes will not be owed on amounts contributed to the plan by participating employees.

(This is true of employees earning less than the maximum amount taxed for social security.)

2 Insurance premiums may be reduced for coverages that are based on employees' taxable salaries.

3 Your company's retirement plan expenses may also be reduced, since profit sharing and pension plans may be based on employees' taxable salaries.

4 Your company's health insurance cost can be lowered by combining certain changes to your insurance plan with the installation of an FSA plan.

5 Because of significant cost increases for health insurance and other fringe benefits, many companies would like to modify the insurance coverage they provide to their employees. An FSA plan can be implemented at the same time a change is made, and thus significantly reduce the impact on the employee.

6 You can increase your employees' share of insurance premiums without reducing their take-home pay.

7 Administrative costs are tax deductible and can be paid by you, your employees, or a combination of employer/participant dollars. Fees can be collected by payroll deduction on a pre-tax basis.



Example of Employer Savings

XYZ Company has 10 Employees	Without an FSA Plan	With an FSA Plan	Your Company
Annual Payroll	\$ 300,000	\$ 300,000	_____
Employee-Paid Premiums	0	- 24,000 *	_____
Unreimbursed Medical Expenses		- 3,000**	_____
Dependent Daycare Expenses		- 10,000***	_____
Taxable Payroll	\$ 300,000	\$ 263,000	_____
FICA Tax (7.65%)	\$ 22,950	\$ 20,120	_____
Savings		\$ 2,830	_____

* Based on insurance premiums averaging \$200 per month per employee.

** Based on four employees contributing an average of \$62.50 per month.

*** Based on two employees contributing an average of \$417.00 per month.

Benefiting the Employee



How will my employees save money?

The portion of salary which an employee directs to the FSA plan is not taxed. The employee will save:

- 1 Federal income tax.
- 2 State and local taxes (where applicable).
- 3 Social security tax (assuming the employee's salary is below the maximum social security wage base).

Your employee's savings will depend on the amount directed to the FSA plan and the employee's tax rate.

The example below illustrates how one employee increased his monthly take-home pay by \$27 through participation in his employer's FSA plan.

What happens to the money that an employee puts into the FSA Plan?

The employee's redirected salary is "banked" by the employer in an account maintained for the employee. Qualified expenses incurred by the employee are reimbursed tax-free from dollars "banked" in the account.

If the full amount is not used by the employee before the end of the plan year, the left over amount is forfeited to the employer. Every effort is made to educate the employees on this risk and to be conservative in their estimates of eligible expenses. As a result, it is our experience that forfeitures are minimal, if any.

Example of Employee Savings

	Without an FSA Plan	With an FSA Plan		Benefit Bank
Salary	\$ 1,000	\$1,000		
To FSA Plan		- 100	→	\$ 100
Taxable Salary	1,000	900		
Income Tax (20%)	- 200	- 180		
Social Security Tax (7.65%)	- 76	- 69		
Salary After Taxes	\$ 724	\$ 651		
Medical Expense	- 100	- 100		
Take-Home Pay	\$ 624	\$ 551		
From FSA Plan		100	←	\$ 100
Net Take-Home Pay	<u>\$ 624</u>	<u>\$ 651</u>		
Net Savings with a Plan		<u>\$ 27</u>		

Note: Actual savings may vary depending upon specific tax situation. Social security benefits could be affected.

Who Can Sponsor an FSA Plan?

Regular corporations, partnerships, S corporations, limited liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on taxes by establishing an FSA plan.

While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the FSA plan, they may still sponsor a plan and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may also participate.



Plan Design & Administration

Plan setup and ongoing administration is easy with our turnkey service.

Simply complete the FSA Plan Application and we take care of the rest.

- 1 Plan Consulting.** Upon receiving your application, a plan specialist will contact you about plan options.
- 2 Plan Setup.** The setup kit includes “signature-ready” custom plan documents and forms, an employer/bookkeeper education videotape, and a checklist for plan implementation. For existing plans, the service also includes a plan review and amendment, if needed.
- 3 Employee Enrollment Assistance.** The enrollment kit includes educational materials such as a videotape, brochures, and enrollment forms (also available in electronic formats, including e-mail and internet-enabled enrollment services).

Confirmation of annual elections, claim forms, and instructions for filing are provided to all participants.

- 4 Employee Account Management.** Employee contributions are collected for each pay period and added to employees’ account balances. Services include account balance tracking, claims adjudication, and claims payment by check, direct deposit, or payroll addition.
- 5 Participant Assistance.** Employees have 24-hour access to their accounts via the Internet and an interactive voice response line, and daytime access to our call center. Employee statements are included on claim reimbursements and on demand.
- 6 Annual Plan Compliance.** Services include reconciliation and reporting of employee account balances, plus compliance with discrimination testing requirements. A “signature-ready” IRS Form 5500 (if required) is provided, along with an Annual Compliance package and information for W-2 Wage and Tax Statements.

Important Information

- The plan must be in writing and a Summary Plan Description must be distributed to each plan participant.
- Elections cannot be changed or revoked at any time during the plan year unless the participant has a change of status, or the required contributions to pay premiums for the elected benefits change during the plan year.
- COBRA continuation forms should be provided to all terminating participants in the medical reimbursement portion of the plan. However, COBRA need not be offered for subsequent plan years.
- If disability insurance is paid on a pre-tax basis, benefits received from the insurance carrier by the employee may be taxable. Under most circumstances, it is recommended that disability insurance not be included in the plan.
- No more than \$50,000 of employer-sponsored group-term life insurance may be provided to employees on a pre-tax basis.
- Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis.
- The plan may not discriminate in favor of highly compensated or key employees.
- The plan must provide a written statement by January 31 of every calendar year showing the amounts paid or expenses incurred for daycare expenses during the previous calendar year. This amount is shown on the employee’s W-2.
- Employers maintaining FSA plans with over 100 participants in the medical FSA must file IRS Form 5500 each year.
- For a medical FSA, the employer must make the full election amount available to participants on the first day of the plan. If an employee leaves employment before fully funding the plan, the company must complete funding. In case of a deficit in the plan account, the company must fund this deficit until employee deposits cover the balance. Generally, the employer’s FICA savings outweigh this risk.
- Eligible expenses must be incurred during the plan year. Funds elected by participants, but unused at the end of the year, will be forfeited to the plan.
- Because employees do not pay any social security tax on income redirected to the plan, their social security benefits may be slightly reduced.

How to Get Started

You can start an FSA at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year, calendar year, or health plan. The choice is yours.

To set up your FSA plan, complete the application located on the following page and fax or mail it to Qualified Plan Services. One of our representatives will contact you to design a custom FSA plan document and set up administrative procedures.

Since employee participation is vital to the success of this plan, we recommend your plan be implemented no sooner than one month after the FSA application is submitted. We will educate and enroll your employees while you simply watch the savings multiply for you and your employees.



FSA Plan Application

If you require assistance completing this form, call 314-621-8929 or 618-654-3100.

1. Legal Name of Company Sponsoring Plan: _____
2. Business Entity Type: C Corporation Sole Proprietorship Partnership Not-For-Profit
 S Corporation Limited Liability Company Government Entity or Church
3. Principal Business Activity: _____
4. Federal Employer Identification Number (Must be 9 digits.): ____-____-____-____-____
5. Contact Person: _____ Title: _____
6. Street Address (No PO Boxes): _____
City, State, Zip: _____
7. Phone: _____ Fax: _____ E-mail: _____
8. Effective Date — This FSA plan will be:
 - a. A new plan effective as of (date) _____
 - b. An amendment and restatement of a previously established Section 125 plan of the employer.
 - (1) This amendment and restatement is effective as of (date) _____
 - (2) State the effective date of the original plan _____
 - (3) State the plan number (consult last Form 5500, if filing was required, for number assigned to your plan): _____
9. Plan Year End: _____
10. Employer's Principal Office — This FSA plan shall be governed under the laws of the:
 State of _____ Commonwealth of _____
11. Benefits — The benefits selected below shall be included in the FSA plan:
 Medical expenses not covered by insurance
 Adult/child daycare expenses
 Adoption Expenses
 Health and other insurance (select coverages below):
 Health insurance premiums Disability insurance** Critical illness insurance
 Dental insurance Vision care insurance Accidental death/dismemberment
 Group-term life insurance* Cancer insurance Other insurance (specify) _____
* Group-term life insurance up to \$50,000 coverage.
** If disability insurance is paid for on a pre-tax basis, any benefits received are taxable to the employee.
Under most circumstances, it is recommended that disability insurance not be included in the plan.
Note: Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis.
12. Legal Name(s) of Affiliated Company(ies) that will be covered by this Plan: _____
13. Total Number of Employees: _____
14. Payroll is prepared: In house Out sourced (specify payroll company) _____

Pricing information

15. Fee for a New Plan Setup and Restatement. Call for a quote.
16. Monthly Fee for Participant Services. Call for a quote. Client is billed by QPS each month.

Shipping instructions

17. Shipping method (FSA Enrollment Kit is shipped within 2 business days of receiving completed application):
 Free UPS Ground \$25 Express Service Specify delivery date for Express Service: _____

Payment of setup fee

18. Check enclosed for \$_____ (payable to Qualified Plan Services, Ltd.)

Insurance Broker Information (if applicable)

Name of broker: _____ Affiliated Company: _____
Address: _____
City, State, Zip: _____
Phone: _____ Fax: _____ E-Mail: _____

FAX this completed form to QPS: (618) 654-4624

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The Service Provider

In 1982, Qualified Plan Services, Ltd. was established by Nancy Flachsbart who pioneered pension administration servicing. Since that time, Qualified Plan Services has expanded its servicing solutions to include Cafeteria 125 Plans, HRAs, and Non-Qualified Plan servicing. Servicing includes creative plan designs, enrollment assistance, participant accounting, IRS compliance support, and web-based participant assistance.

Through its commitment to personalized, high-quality servicing solutions and strategic relationships with various professionals and organizations, Qualified Plan Services has successfully differentiated itself from the competition in the marketplace.

The committed professionals at Qualified Plan Services stand ready to provide personalized and friendly service. Learn more about Qualified Plan Services by visiting www.qpsltd.com.

Qualified Plan Services, Ltd.

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