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**INCREASE  
YOUR  
TAKE HOME  
PAY...**

**...WHILE  
REDUCING  
YOUR  
TAXES**

**USE IRS SECTION 125  
TO YOUR ADVANTAGE...**

## What is a Flexible Compensation Plan?

The flexible Compensation Plan (Flex Comp) is a Voluntary benefit for all eligible employees. Authorized under Section 125 of the Internal Revenue Code, this legal program allows you to fund certain specific expenses with PRE-TAX dollars rather than AFTER-TAX dollars. In general, expenses that can be paid through the Plan include:

Employee portions of group medical, group life, group dental, and group disability premiums through your employer.

Most uninsured medical expenses that are not already covered by insurance, such as deductibles, co-insurance, contact lenses, glasses, dental expenses, etc.

Qualified child and/or dependent care expenses.

## Who is Eligible to Participate

All full time employees are eligible to participate on the Plan's Effective Date.

## How Flexible Compensation Can Increase Your Spendable Income.

By signing a voluntary salary reduction agreement you pay your eligible expenses with PRE-TAX salary, without normal income tax liabilities or social security taxes, you will increase your spendable income.

The adjacent chart gives an example of how the plan works to increase your spendable income by saving tax dollars. Without Flex Comp – you have zero tax savings; with a \$75 monthly medical premium set aside you would save \$266.16 annually; with an additional \$60 monthly uninsured medical expenses you would save \$497.04 annually; with an additional \$300 monthly set aside for child-care you would save a total of \$1,566.24 a year.

## Here's How It Works

You estimate your and/or your family's annual qualified medical and child-care expenses.

Divide the annual sum into equal per pay period contributions.

Each pay period, tax-free salary contributions are taken out of your paycheck before federal, state and social security taxes are calculated.

The net paycheck is your take-home pay for this pay period.

The dollars for tax-free benefits are ready for you to claim on eligible expenses.

## Eligible Expenses

Listed below are many of the medical and dependent care expenses covered for payment under the Flexible Compensation Plan. This list is not meant to be all-inclusive. Other expenses not specifically mentioned may also qualify.

### Health Care / Medical

#### Insurance-Related Items

Deductibles  
Co-Insurance Amounts  
Private Room Differential

#### Medication

Prescription Drugs  
Prescribed Vitamins  
Prescribed Birth Control

#### Obstetric Services

OB/GYN Exams  
Pre-Natal Treatment  
Mid-Wife Expenses  
Post-Natal Treatment  
Well Baby Care

#### Dental Services

Exams/Tooth Cleanings  
Fillings  
Extractions  
Dental X-Rays  
Crowns/Bridges  
Dentures  
Orthodontia/Braces  
Oral Surgery  
Gum Treatment/Surgery

#### Vision Services

Eye Exams  
Eye Glasses  
Contact Lenses  
Prescription Sunglasses  
Artificial Eyes

#### Lab Exams/Tests

Blood Tests  
Metabolism Tests  
X-Rays  
Cardiographs  
Spinal Fluid Tests  
Urine/Stool Analysis

#### Other Medical Treatments

Physicals  
Vaccinations/Immunizations  
Hearing Exams  
Insulin Treatment  
Physical Treatment  
Chiropractic Treatment  
Prescribed Weight Loss  
Drug/Alcohol Treatment  
Psychiatric Treatment  
Treatment for Handicapped

#### Other Medical Equipment, Supplies and Services

Hearing Aids  
Splints/Casts  
Crutches  
Abdominal/Back Supports  
Arches/Orthopedic Shoes  
Ambulance Services  
Prescribed medical and Exercise Equipment  
Learning Disability Counseling

### Dependent Care

Childcare	After-School Care
Daycare Centers for Children	Day Summer Camps
Adult Dependent Care Centers	Live-In-housekeeper

### Group Premiums

Term Life	Health	Disability	Dental
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# Employee Example

\$1,600.00 per month

	<u>Without</u> Flexible Compensation		<u>With</u> Flexible Compensation
Gross Monthly Salary	\$1,600.00		\$1,600.00
Medical Premium		→	-75.00
Dependent Care		→	-300.00
Medical Expenses		→	-60.00
TAXABLE INCOME	<u>\$1,600.00</u>		<u>\$1,165.00</u>
Federal Income Tax	151.20		85.95
State Tax	76.16		44.17
FICA (7.65%)	122.40		89.12
SUBTOTAL	<u>\$1,250.24</u>		<u>\$945.76</u>
Medical Premium	-75.00	—	0.00
Dependent Care	-300.00	—	0.00
Medical Expenses	-60.00	—	0.00
NET SPENDABLE MONTHLY INCOME:	<u>\$815.24</u>		<u>\$945.76</u>

**MONTHLY TAX SAVINGS: \$130.52**

**ANNUAL TAX SAVINGS: \$1,566.24**

# TEN MOST ASKED QUESTIONS ABOUT FLEXIBLE COMPENSATION

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## 1. How long does it take to be reimbursed?

Your tax-free reimbursement checks are mailed daily for reimbursement claims received, unless otherwise indicated.

## 2. What happens to the money not used during the plan year?

You are given thirty (30) days from the end of the plan year to request money from the accounts on a pre-tax basis for expenses incurred within the plan year. After the thirty (30) days any unclaimed funds left in the Flexible Compensation Program are returned to your employer.

## 3. Does this pay interest on the money put in the Flexible Compensation Program?

No, your reimbursement trust account is not meant to be a savings account.

## 4. Can't you receive a deduction on your 1040 tax form for medical expenses?

Yes, but the deduction is limited to expenses which exceed 7% of your gross income. For example, if you make \$15,000 per year, you would need at least \$1125 of medical expenses before you could take a deduction on your income taxes. When you put money in the Flexible Compensation Plan you receive an immediate Federal, State, and Social Security tax deduction. There are no additional tax forms you have to file at the end of the year because of your participation in this benefit.

## 5. If you allocate money for any medical expense can you spend it on another?

Yes, money you place in the medical expense Flexible Spending Account (FSA) can be spent on any Federally- allowed expenses, and they can be spent for the benefit of you or any of your dependents. You may not however, spend medical expense FSA funds on Child Care FSA expenses and vice versa.

## 6. How much will this effect your Social Security Benefit?

Each person's Social Security benefit is different depending on your salary, age, etc. One of the benefits of the Flexible Compensation Plan is that it allows you to take some of the money you were paying to the Government and now invest it in your own savings program if you wish.

## 7. Can you change your Flexible Compensation Program pre-tax salary contributions?

Yes, the Internal Revenue Service allows you to change your contributions each year. Additionally, you can change your contributions if you have a change in your family status (eg., marriage, divorce, birth, death, or change in your job status).

## 8. Do you have to submit receipts before collecting reimbursement from this program?

Yes, we require that you enclose a copy of medical expense bills, or receipts when you request reimbursement money from your medical expense FSA. The medical expense bill or receipt must show the name of the provider, cost of the expense, and the date incurred. We provide you with claim forms for you to use.

## 9. Can't you receive a tax credit on your 1040 tax form for child care expenses?

Yes, however the Flexible Compensation Program gives you a tax deduction on not only your Federal income taxes, but also your State Income Taxes and Social Security Taxes. Generally, families save more taxes with the Flexible Compensation Program than they would with the 1040 tax credit.

## 10. Do you pay taxes at the end of the year on salary contributions to this plan?

No, you pay no taxes on contributions to this benefit. The money is tax free as long as you spend it on qualified medical or child care expenses. The money will not be taxed on your paycheck. The money will not be taxed when you use it and the money will not be taxed when you file your 1040 tax form at the end of the year.