

SAN DIEGO STATE UNIVERSITY

Section 125 Health Care and Dependent Care Spending Account

Election Period for 2007 Plan Year (January 1, 2007 through December 31, 2007)

As an integral part of your employee benefit plan, your employer is sponsoring a Health Care Spending Account and a Dependent Care Spending Account. These accounts allow you to save taxes by paying for dependent care and medical, dental, and vision expenses with pre-tax dollars. Participation in the Health Care and Dependent Care Spending Account is strictly voluntary, but once you have made your election, your election stays fixed for the entire Plan Year unless you have a Status Change, as discussed in this brochure.

The Health Care Spending Account can reimburse you for your deductibles or co-pays, dental or vision care, and other out-of-pocket health care expenses as approved by the Internal Revenue Service (see the attached partial lists). You can tax shelter any amount to \$5,000 for the 2007 plan year.

The Dependent Care Spending Account is a great way to pay for childcare or dependent care expenses with pre-tax dollars thus enabling you, or you and your spouse, if you are married, to be gainfully employed. You can tax shelter any amount up to \$5,000 per year for Dependent Care (\$2,500 for a married individual filing a separate tax return). The primary advantage of using the Dependent Care Spending Account is that you are being reimbursed with your own pre-tax dollars, thus saving you money and taxes!

HEALTH CARE SPENDING ACCOUNT

Maximizing Your Income

Many of the dollars you spend each year on health care expenses can be tax sheltered. Therefore, instead of paying Out-of-pocket health care expenses with your payroll dollars after they have been taxed, you can have the same dollars deducted from your paycheck before the taxes are computed, then receive reimbursement from your not-taxed dollars.

Think about the dollars you spend on co-payments for medical, dental, vision care, and prescription drugs not covered by your health care plan.

You should also be aware that expenses that are eligible for reimbursement include your own, those of your spouse, and those of any child or other person who qualifies as a dependent under federal income tax rules, even **if you do not cover these individuals under your group health care plan.**

IS HEALTH CARE SPENDING ACCOUNT RIGHT FOR ME?

Only you can answer this question. However, think about this example for a moment. An employee is considering not electing the Health Care Spending Account because she thinks that, after all, "I'm healthy and I hardly ever go to the doctor." After thinking about it a while, however, she remembers her physician co-payments of \$30, the additional she paid for her prescription glasses of \$70, and her two dental exams and the filling of \$100, for a total of \$200 out-of-pocket expenses. But are the tax savings on \$200 worthwhile?

$\$200 \times 7.65\%$ for FICA =	\$15.30
$\$200 \times 17.4\%$ for Federal Income Tax =	\$34.80
$\$200 \times 3.90\%$ for State Income Tax =	\$ 7.80
Total Tax Savings on \$200 =	\$57.90

Even though she said that she never goes to the doctor, she quickly realized that her "well" expenses could have saved her approximately \$60 in taxes if the \$200 had been contributed to the Health Care Spending Account. Don't lose out on saving money because you think that it might not "be worth it" for you. Take a long, hard look at your expenses, and then reevaluate your decision.

There are many different health care expenses that are eligible for reimbursement; the following are examples:

Fees for Professional Services by a M.D. or Licensed Practitioner Including:

Anesthesiologist	Gynecologist	Ophthalmologist	Podiatrist
Chiropractor	Midwife	Optometrist	Practical Nurse
Christian Science Practitioner	Neurologist	Osteopath	Psychiatrist/Psychologist
Dentist	Nurse	Pediatrician	Psychotherapist
Dermatologist	Obstetrician	Plastic Surgeon	Surgeon
Therapist			

Medical/Hospital Services when not covered by a Group Health Plan or Program

- Diagnostic services by, or under direction of an M.D.
- X-rays and radiological services for diagnosis or treatment
- Expenses for donating or receiving an organ transplant
- Nursing services for specific medical ailment by a RN or LPN who is not related to employee
- Services of a physical, speech, or an occupational therapist
- Ambulance
- Laboratory fees
- Prescription drugs, including insulin, laetrile, birth control pills (as prescribed by an M.D.)
- Over-the-counter drugs that alleviate an illness or disease
- Drugs to alleviate nicotine withdrawal
- Vaccinations and Immunizations
- Smoking - cessation programs
- Medical supplies that alleviate an illness or disease

Other Health Related Expenses

- Treatment of alcoholism or drug dependency, including expenses for meals and lodging at a treatment center
- Legal abortion or sterilization
- Acupuncture
- Acupressure
- Lead-based paint removal in the home
- Mileage if properly documented to and from a medical facility

Dental/Eyesight/Hearing

- Dental checkups and care (by a DDS or dental hygienist), including dentist's fees, X-rays, fillings, braces, extractions, implants, and dentures; Orthodontics
- Cost of guide dog for blind or deaf
- Braille books and magazines (in excess of regular book cost)
- Eye exams, eyeglasses, and contact lenses
- Contact lens solution and supplies
- Lasik Eye Surgery
- Special devices for the blind (tape recorder, typewriter)
- Hearing aids and care (including batteries)
- Cost of note-taker for a deaf person in school
- Household visual alert for expenses for special telephone equipment for deaf person
- Adapting a television for the deaf

Maintenance/Support Devices (if medically necessary)

- Support hose, orthotics and orthopedic shoes (in excess of regular shoe cost)

Maintenance/Support Devices(cont.)

- Wheelchair, Crutches, Wigs
- Oxygen equipment and oxygen
- Cost of equipment auto for handicapped (in excess of regular auto cost)
- Prostheses and prosthetic supplies
- Colostomy supplies
- Capital expenses-amounts paid for special equipment installed in the home or improvements made for medical reasons
- Psychiatric care-this may include costs of supporting mentally ill dependents at a specially equipped center where a dependent receives medical care
- Fees in conjunction with aid for learning disabilities

Other Fees Covered

- Deductibles and co-payments for health care coverages
- Special Schooling for the physically or mentally handicapped
- Transportation and lodging expenses incurred for medical reasons
- Legal fees paid to authorize treatment for mental illnesses

Examples of Non-Reimbursable Expenses/ Ineligible Expenses for Reimbursement

- Fee for exercise, athletic, or health club membership
- Weight reduction for general well-being
- Household help
- Any illegal treatment
- Dancing or ballet, even when recommended by Dr.
- Cost of remedial reading classes for non-handicapped child
- Child adoption costs
- Insurance premiums
- Cosmetic surgery that is not medically necessary
- Ear piercing
- Funeral or burial expenses
- Personal hygiene supplies including, but not limited to deodorant, toothpaste, feminine napkins, etc.
- Over the counter Medications that promote general health or general well-being (i.e. vitamins)
- Teeth Bleaching/Whitening

We reserve the right to review any or all documentation sent in for reimbursement. Further information may be requested to substantiate your claim for medical care. All requests for further documentation will be made in writing and sent to the current address on file within 15 days of receiving the claim.

DEPENDENT CARE SPENDING ACCOUNTS

It can be extremely costly to provide care for your dependents so that you (or you and your spouse, if married) can be gainfully employed. The Dependent Care Spending Account is designed to allow you to reduce your taxes by tax sheltering the money you would normally spend for day care. With the high cost of dependent care, the tax savings can be substantial, in some cases reaching as high as thousands of dollars each year.

Making Your Dependent Care Expense Work for You

It is extremely important for you to understand the “rules” that the Internal Revenue Service has placed on this tax-saving benefit, so please read the following carefully before you decide to make a Dependent Care Spending Account election.

Definition of Dependent

Children under 13 years of age and dependent upon you for Federal Income tax purposes. (If your child turns 13 during the Plan Year, you cannot stop your Dependent Care contributions; however, childcare rendered to such child will cease to be reimbursable.)

A spouse or other dependent that is incapable of self-care. (An example would be invalid parent or a spouse who is disabled or handicapped.) The dependent must regularly spend at least 8 hours per day in your home and must qualify as your dependent for federal income tax purposes. If the dependent fails to meet any of these requirements during the Plan Year, you cannot stop your Dependent Care contributions; however, dependent care rendered to such dependent will cease to be reimbursable.

Definition of Care-Giver

Dependent care services may be provided either inside or outside your home by a person who is not your minor child or one of your other dependents who qualify as your dependent for income tax purposes.

If the services are provided by a day-care facility that cares for 6 or more children at the same time, the day-care facility must be a qualified day-care center.

The Social Security Number or Tax Identification Number of the Caregiver must be provided in order to be eligible for reimbursement.

Limitations on Qualifying Expenses

Services that are eligible for reimbursement are those charged for the physical care of your dependent, not for education or meals.

The dependent care expenses must be incurred in order to enable you (or you and your spouse, if married) to be gainfully employed.

Your annual allocation cannot exceed 100% of your spouse's annual income or one-half of your income, whichever is lowest but in no event can your total annual contributions exceed \$5,000

Expenses reimbursed through your Dependent Care Spending Account cannot be claimed for federal or state income tax credits. The amount reimbursed reduces the amount of eligible tax credit dollar for dollar.

DOES IT MAKE SENSE FOR ME TO ELECT THE DEPENDENT CARE SPENDING ACCOUNT

If you have a childcare (or dependent care) expense that meets the qualifications outlined above, it really would not make sense to not tax shelter those expenses. Since your expected payments for day care are relatively easy to project, the "Use It or Lose It" rule (see Page attached) is not as much of a risk factor as trying to project your medical care expenses.

Here's an example of a married employee who is in a 28% tax bracket and whose two children are in day care so that both parents can work full time. The total day care expenses for the two children totals \$135 per week, or \$6,750 per year for 50 weeks of day care. Under the qualifying formula, our employee can elect to tax shelter \$5,000. Here is an example of her tax savings in one year.

\$5,000 x 7.65% for FICA =	\$382.50
\$5,000 x 28.0% for Federal income Tax =	\$1,400.00
\$5,000 x 6.5% for State Income Tax =	\$325.80
Total Tax Savings on \$5,000 =	\$2,107.50

BE AWARE – THE “USE IT OR LOSE IT” RULE

Under a section 125 cafeteria Plan, an employee must estimate qualified medical or dependent care expenses in advance and incur those expenses during the Plan Year. If the employee fails to spend the annual allocation he or she made, the employee loses any remaining balance, and the remaining funds in the account are forfeited to the employer to use to offset administrative costs of the Plan.

Employees need to be aware of this modest risk and make estimates of annual covered expenses carefully in order to avoid loss of money. It is important to note that once you make a written election for the Plan Year, no change can be made during the Plan Year except as a result of a Status Change (see below).

If you have any questions, please feel free to call Ruth Nelson at (800) 249-8440 (Ext 132).

“STATUS CHANGE”

The following are examples of Status Changes that will permit an employee to change a Section 125 Cafeteria Plan election during the Plan Year

- Marriage or divorce of the employee
- Birth or adoption of a child of the employee
- Employee or spouse’s employment status changes from full-time to part-time or from part-time to full-time
- Death of employee’s spouse or dependent
- Spouse begins or ends employment
- Employee or spouse takes an unpaid leave of absence

HOW TO FILE CLAIMS

It is very easy to request reimbursement of your health care or dependent care expenses. The claim forms are short and require minimal information. However, it is necessary that you attach copies of itemized bills, receipts, or Explanation of Benefits (EOB) from your insurance administrator. **These receipts need to indicate the date of service, the type of service and the amount of the service in order for the expense to be processed. Receipts for dependent care need to include the tax ID number or social security number of the day care provider.**

All claims can be mailed to 3505 Cadillac Avenue #O-201; Costa Mesa, CA 92626 Attn: Flex Dept. or faxed to 714-437-1142. There is no need to fax and mail the same reimbursement.

You may get a reimbursement form from your Human Resource Department or online at www.ebam.com - under the section labeled “Administrative Forms.”

Reimbursements are made twice a month on the 15th or the next business day and also the last business day of the month.

If you have any questions concerning how to file a claim, the necessary forms, or questions concerning account balances, etc., please direct them to Ruth Nelson at (800) 249-8440 (Ext 132).

ACCOUNT BALANCES

Participants in the Medical Care or Dependent Care Spending Accounts will receive statements indicating the balance in each account elected with each check that is issued. This information will help you monitor the balance in your account so that you can plan to spend your entire allocation for the Plan Year.

IMPORTANT NOTES

Legal requirements prevent a Section 125 Plan from favoring highly compensated employees or discriminating against any particular group of employees. If it is necessary for your Employer to reduce the amount of your election in order to meet IRS non-discrimination requirements, you will be personally notified.

Social Security Benefits are based on FICA taxes paid. Any amounts that are tax sheltered as a result of a Section 125 Plan election will not be used for computing FICA taxes and may adversely affect the amount of the benefits payable from Social Security Administration for survivorship or retirement benefits.

The tax savings shown in this brochure are for illustration purposes only.

Each employee has unique set of circumstances, which will make his or her savings either more or less than those shown here. We would suggest that you seek advice from a tax accountant before making any decision concerning an election under a Section 125 program.

Section 125 Health Care and Dependent Care Spending Account is administered by:

EBA&M Corporation

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