



**NORWICH**  
**UNIVERSITY**

## **Cafeteria Plan**

**2010**

## **Explanation Booklet**

**For January 1, 2010 through December 31, 2010 Plan Year Elections**

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# NORWICH UNIVERSITY CAFETERIA PLAN OVERVIEW

For January 1, 2010 through December 31, 2010 Plan Year

The purpose of the Norwich University Cafeteria Plan is to address each employee's unique benefit needs by letting them choose how their benefit dollars should best be spent. Eligible employees are provided a **Monthly Benefit Allowance (MBA)** at the beginning of each plan year or when they commence employment, if later. The purpose of this booklet is to help you make informed choices regarding how to spend your **MBA**.

## Eligibility and Effective Date of Coverage

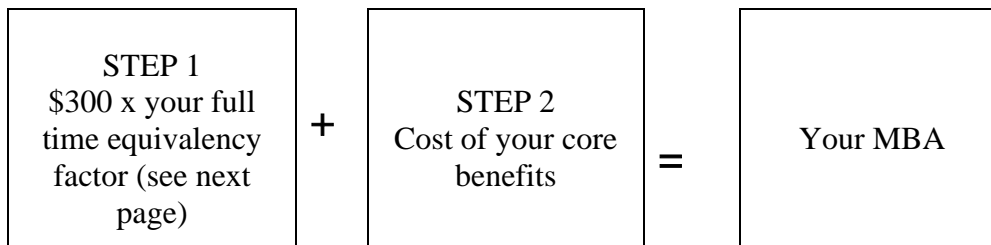
Employees regularly scheduled to work 20 or more hours per week on an annual basis are eligible to participate in the Plan. The effective date of their elections is the first of the month coincident with or next following the date they commence employment with the University. For continuing employees who complete the Online Election and Enrollment Form in November / December, coverage is effective January 1st.

## Data

The data used in preparing your **MBA** is contained in the Online Election and Enrollment Form. **Please verify the accuracy of the information and immediately notify Human Resources of any errors.**

## Monthly Benefit Allowance Formula

Your personal MBA will show up automatically when completing your online enrollment.



## Basic Monthly Earnings

Basic Monthly Earnings are simply your Basic Annual Earnings divided by 12.

## Full-Time Employee

Employees regularly scheduled to work 30 or more hours per week on an annual basis.

## Part-Time Employee

Employees regularly scheduled to work less than 30 hours per week on an annual basis. For part-time employees, the base allocation of \$300, is multiplied by a **full-time equivalency factor** (e.g., exempt - 25/40 or non-exempt - 25/37.5) to arrive at your **MBA**. The net result, for example, is that an exempt employee working 20 hours per week would get 50% of the base allocation that a full-time exempt employee would receive.

## **MBA Philosophy**

The MBA has been calculated so that at a minimum, full-time employees have enough money to purchase the core benefits, **plus** the HMO High Deductible Health Plan (HDHP) coverage (with the assistance of the Medical Allowance – see below), **plus** Dental coverage, **plus** have a few dollars per month left over.

## **Medical Allowance**

In addition to their MBA, each employee who elects Medical/Hospital coverage will also be entitled to a Medical Allowance based on the cost of the HMO HDHP coverage. Your personal Medical Allowance will automatically calculate when you choose your option and coverage category online. Part-time employees will receive a pro-rated Medical Allowance based upon their scheduled hours per week and whether they are a salaried or hourly employee.

## **Core Benefits**

All eligible employees must participate in the University's Life, Accidental Death and Dismemberment, and Long Term Disability insurance plans. In addition, hourly employees are also required to participate in the new Short Term Disability plan. This requirement is due to the underwriting rules of the insurance companies.

If you would like the Long or Short Term Disability premiums subtracted from your paycheck on an **after-tax** basis, please contact Human Resources. Disability benefits are taxable when the premium is paid by an employer. If the premium is paid on an after-tax basis, any benefits would not be taxable.

The monthly cost of your core benefits, as well as the net MBA, automatically calculates on your Online Election and Enrollment Form. The net MBA balance is available to apply to the rest of your benefit choices.

## **Cash Option**

Depending on your elections, you may still have money left in your MBA (this will be automatically calculated) and can take the money in cash, which will simultaneously increase (within legal limits) your pre-tax contribution to your tax-sheltered annuity (403(b)) account, it is fully taxable to you and will show up on the last line of your online enrollment form. It will also show up as a separate income item in your regular paycheck. The portion of the MBA that you elect to receive in cash will be allocated by the following formula:

Non-Exempt Employee

$$\frac{\text{MBA Cash} \times 12}{26} = \text{MBA Cash Paid Bi-Weekly}$$

Exempt Employee

$$\frac{\text{MBA Cash} \times 12}{24} = \text{MBA Cash Paid Semi-Monthly}$$

For employees who terminate employment, the MBA they elected to receive in cash shall cease with the pay date for the pay period in which they perform their last hour of service for the University.

# NORWICH UNIVERSITY MEDICAL PLAN

## Overview for 2010

Employees continue to have the opportunity to choose from 3 coverage options. We encourage you to review the Plan outlines and provider information, on the Blue Cross website at [www.bcbsvt.com](http://www.bcbsvt.com)

### 1. HMO - High Deductible Health Plan (HDHP)

This option, called “BlueCare,” is provided by Blue Cross Blue Shield (BCBS), and is coupled with a Health Savings Account (HSA). Single coverage has a \$2,000 deductible and 2-person or family coverage has a \$4,000 deductible, which can be met by expenses for one person or a combination. Generally, eligible expenses (including prescriptions) are paid at 100% only after the deductible has been met, however, certain preventive services and eye exams are not subject to the deductible. The Plan has an unlimited maximum lifetime benefit and includes dependent student coverage up to age 25. A primary care physician referral is not required to see a specialist if using a BlueCare provider.

### 2. Comprehensive - High Deductible Health Plan (HDHP)

This option, called “Blue,” is also provided by BCBS and has deductibles of \$2,250 for single coverage and \$4,500 for two-person or family coverage. It is otherwise similar to the HMO option except for a broader network, lifetime maximum of \$2,000,000, and it does not have a vision rider. The cost of this option is higher than BlueCare because of broader network access, and employees are responsible for the difference in premium.

### Health Savings Account (HSA)

An HSA is an account that you can put money into to save for future medical expenses. There are certain tax advantages to having an HSA, and we encourage you to learn more by going to the US Treasury Department’s website [www.treas.gov](http://www.treas.gov) (click on “Health Savings Accounts”). Norwich’s HSA works in conjunction with either HDHP option, to provide a way to pay for the deductible and other eligible expenses on a pre-tax basis. For 2010, Norwich will fund \$1,500 for single and \$3,000 for 2-person or family. The HSA payment schedule is as follows:

January 4, 2010	Five months contribution (\$625/\$1,250)
June 1, 2010	One month contribution (\$125/\$250)
July 1, 2010	One month contribution (\$125/\$250)
August 2, 2010	Balance five months contribution (\$625/\$1,250)

There may be individual instances where accelerated HSA deposits are warranted. If an employee with an HSA provides evidence that the health plan deductible has been met before the University has completed the scheduled employer deposits to the account, the University will provide an accelerated deposit of the remaining contributions for the plan year at the beginning of the next month.

You have the opportunity to fund the remaining balance of the deductible on a pre-tax basis plus an additional amount up to IRS limits (below). These pretax contributions will be spread evenly over the year.

For 2010, the maximum contribution for an eligible employee with self-only coverage is \$3,050. The maximum contribution for an eligible employee with 2-person or family coverage is \$6,150. If you are at least 55 years old, you are allowed to contribute additional “catch up” payments to the HSA on a pre-tax basis up to \$1,000 for 2010. Please note, if you become eligible after January 1st and you do not stay in the HSA for 12 months following the last month of the year of the first year of eligibility, the

amount disallowed will be included in gross income and subject to a 10% additional tax.

The money deposited into your HSA account is yours to keep, if you do not use it to pay for out-of-pocket medical expenses, even upon termination. Any unused dollars simply keep accumulating in your account each year.

Due to IRS rules, you cannot have an HSA and be covered under another medical plan (with limited exceptions). This means it is unlikely that you will be eligible to participate in another health plan outside of Norwich, if you enroll in one of the Norwich medical plans.

### 3. No Coverage


Eligible full-time regular employees will be allowed to choose this option only if they can prove that they are covered under another health plan. Full-time employees do **not** have to cover their dependent(s), if any. Eligible part-time regular employees will be allowed to choose this option and will not be required to prove they are covered under another plan.

### 2010 Monthly Costs

	COVERAGE TIERS		
	<u>Single</u>	<u>2 - Person</u>	<u>Family</u>
HMO/HDHP	\$358.27	\$610.53	\$882.51
Comprehensive HDHP	\$402.01	\$721.39	\$1,045.91

### Prescription Drugs

Both plans include prescription coverage. Present your BCBS ID card at a participating ExpressScripts pharmacy, the prescription will be priced at the BCBS negotiated rates and you pay for it either out of your HSA or personal funds. The cost is applied directly to your deductible. Once your deductible has been met, all eligible expenses including prescriptions are paid at 100%. Diabetic supplies are treated the same as any drug and, therefore, are subject to the deductible.

If you take daily medication, a mail order program is available which allows you to purchase up to a 90-day supply and the prescriptions are delivered to your home. For further information, call Express Scripts at (877) 493-1947 or log on to [www.express-scripts.com](http://www.express-scripts.com) 

### COBRA Prices

Norwich University continues to assume certain risks and other costs for our Medical/Hospital and Dental Plans. Therefore, the costs outlined in this packet are not the COBRA rates. Employees and/or their dependent(s) who would otherwise lose their coverage can, in certain circumstances, choose to continue their coverage, provided they pay the necessary premium. This premium is referred to as the “COBRA rate”, which will be higher than the prices quoted in this packet.

# NORWICH UNIVERSITY DENTAL PLAN

## Overview for 2010

### General Explanation

The Plan pays covered services (see below) at 80%. The maximum benefit per year is \$750 per person covered. A family of four would have a \$3,000 annual maximum benefit limitation. Additional information can be found in the Norwich University Dental Plan Summary Plan Description.

### Covered Services

The plan covers the following dental services:

- Office visits for cleanings and x-rays
- Oral surgery
- Referrals to specialist
- Second and third surgical opinions
- Fluoride applications
- Space maintainers
- Extractions
- Restorative services such as fillings
- Endodontics (root canal)
- Periodontics (treatment of gum disease)
- Major restorative work such as crowns, inlays and bridges
- Orthodontic procedures (braces)

While participation in the Dental Plan is not mandatory, if you choose not to participate and do not have other coverage, your maximum benefit will be reduced if you join the plan in a future year. The reduction is 50% in the first year and 25% in the second year after a plan year in which you had no dental coverage.

### 2010 Monthly Costs

<b>Dental</b>	<b>Single</b>	<b>2-Person</b>	<b>Family</b>
Employee Cost Per Month	\$24.39	\$48.77	\$85.35

Once you have selected your coverage tier, the cost will automatically be reflected on the online enrollment form. The monthly premium for the Dental option chosen will be paid by any one or a combination of the following methods:

- MBA
- Withheld from your paycheck on a pre-tax basis
- Withheld from your paycheck on an after-tax basis

# **NORWICH UNIVERSITY FLEXIBLE SPENDING ACCOUNTS**

## **Overview for 2010**

### **Voluntary Participation**

You may voluntarily establish a Flexible Spending Account for Health and/or Dependent Care expenses to pay for those expenses on a before-tax basis. This will reduce your taxable income for social security/medicare, federal and state income taxes.

### **Contributions**

You may contribute salary deferrals as well as MBA money to these accounts. Any MBA money will be pro-rated and credited to your account on the two pay dates of each month if you are an exempt employee and pro-rated and credited each bi-weekly pay date if you are a non-exempt employee. If you terminate employment, any MBA money that you directed to your account cease with the pay date for the pay period in which you perform your last hour of service for the University.

No interest is credited to your account(s), and the same forfeiture, reimbursement, mid-year election changes, and change in status rules apply to MBA money and salary deferrals. Contributions to the accounts will be available for reimbursement of eligible expenses incurred during the January 1, 2010 through December 31, 2010 Plan Year.

### **Who is Eligible?**

Employees eligible to participate in the medical plan are eligible to participate in one or both Flexible Spending Accounts. **IMPORTANT:** Due to HSA rules, if you enroll in either medical plan you can only participate in the Health Flexible Spending Account on a limited basis, that is, you are limited to only dental and vision expense reimbursements from your account.

### **What About Existing Elections?**

Your elections for the prior Plan Year (those you made in December 2008) will terminate December 31, 2009. You must make a new election for the January 1, 2010 through December 31, 2010 Plan Year.

### **What About Existing Account Balances?**

You have the opportunity to submit claims for dependent or health care expenses that were incurred during a calendar year (January 1 - December 31), until May 31 of the following calendar year. After that, you will forfeit any unused monies. Forfeitures will first be used to pay any experience losses of the plan and any remaining monies will be contributed to the Norwich University Capital Campaign.

### **Enrollment**

To participate in either Flexible Spending Account, or contribute to your HSA, you must complete the Online Election and Enrollment Form during open enrollment or within thirty (30) days of a qualifying change in status (refer to page 14). Please note that you can change your HSA contributions at any time, as the change in status rules do not apply.

## Health Care Flexible Spending Account

The Plan permits you to reduce your salary by the amount you estimate will be required to cover eligible health care expenses (up to a maximum of \$4,000) per Plan Year. The amount by which you reduce your salary goes into your account, and as you incur health care expenses, you draw reimbursements from your spending account. You cannot use the spending account for any other purpose.

By reducing your salary, you lower your income reported for federal, state and social security/medicare taxes and therefore, contributions to and benefits from the Flexible Spending Account will be tax free.

### **Eligible Expenses**

**IMPORTANT NOTE:** Due to HSA rules, if you enroll in either medical plan you can only participate in the Health Care Flexible Spending Account on a limited basis, that is, only dental and vision expense reimbursements may be made from your account.

Expenses eligible for reimbursement are outlined in IRS Publication 502, available online at [www.irs.gov](http://www.irs.gov), which summarizes deductible medical expenses. Please note while over the counter drugs are not deductible medical expenses, many OTC drugs are eligible for reimbursement, including allergy, asthma and cold medicines, pain relievers, and antacids (ie, those used for the treatment of an illness or injury). Products which are not eligible include toiletries, vitamins, cosmetics, etc.

Participants may not be reimbursed for the cost of other health coverage such as premiums paid under plans maintained by the employer of the Participant's spouse or individual policies maintained by the Participant, his spouse or dependent. In addition, long term care services are also not eligible for reimbursement. Once you have incurred an eligible expense, you can submit a claim for reimbursement. You do not have to pay the expense first and then get reimbursed.

### **Caution**

This information is not intended to be tax advice and is subject to change. For further information, you may wish to consult your tax advisor.

## Dependent Care Flexible Spending Account

The Plan provides the opportunity to pay for dependent care expenses in a tax-efficient manner.

### Eligible Dependent Care Expenses include:

- Baby-sitter/housekeeper costs
- Licensed day-care center costs
- Schooling costs for children not yet in first grade
- Summer day camp costs for children under the age of 13 (overnight camp expenses are ineligible)
- Care-giver for an adult

Transportation costs to and from day care are not eligible. Relatives, including your child over age 19, can be hired to provide care to dependents, however, a dependent whom you claim as a personal exemption on your tax return cannot be so employed.

### What Are Your Choices?

If you expect to have dependent care expenses, you have three choices of favorable tax treatment. Each individual needs to decide on the choice which best fits his/her own situation.

#### Choice #1 - The Dependent Care Flexible Spending Account

The Dependent Care Flexible Spending Account allows you to pay up to \$5,000 per calendar year for your Dependent Care expenses with money that is **tax free**. That is, you can reduce your salary up to \$5,000 and not pay any federal, state or social security/medicare taxes on that reduction.

#### Choice #2 - The Income Tax Credit

Up to certain limits, you may claim a tax credit on your federal income tax return for a portion of your Dependent Care expenses. It is not a credit against social security/medicare taxes. Please refer to IRS Publication 503 available at [www.irs.gov](http://www.irs.gov) for more information. A Vermont tax credit is also available.

#### Choice #3 - The Dependent Care Flexible Spending Account and the Income Tax Credit

In certain circumstances it may make sense to use both Choice #1 and Choice #2.

### Eligibility

Requirements to receive the tax benefits of either the Account or the tax credit are the same. Of course, you cannot use both the Account and the tax credit for the same expenses.

The primary purpose of the tax benefit is to help people with dependent care expenses remain gainfully employed or seek employment. You must be working or seeking employment in order to be eligible. If married and living with your spouse, both you and your spouse must be employed or seeking employment. In the case of divorced or separated parents, the parent who has custody of the dependent for the longest period of time during the calendar year can claim the dependent care expenses.

The dependent care expenses that can be applied toward the tax credit or reimbursed from the Plan cannot be greater than the lowest-paid spouse's annual earnings. For example, if you earn \$20,000 a year but your spouse earns only \$3,000 a year, then you can only use \$3,000 for either the tax credit or the Account. There are exceptions to this lowest earnings limitation, so be sure to check out IRS Publication 503 for more details.

To be eligible under either alternative, expenses must be incurred for “qualifying individuals”, that is, your children or stepchildren (or other individuals who are your dependents) and who are members of your household for more than half of the tax year. The definition also includes anyone in the above category who is mentally or physically incapable of caring for himself/herself. Any child who is under age 13 qualifies automatically.

### **Choice #1 The Dependent Care Flexible Spending Account**

The Account permits you to reduce your salary by the amount you estimate will cover your dependent care expenses in the coming Plan Year, up to **\$5,000** if married filing jointly or head of household, or **\$2,500** if married filing a separate return. Your salary reduction goes into your spending account and can be used to reimburse dependent care expenses. **You cannot use the account for any other purpose.**

By reducing your salary, the income you report for federal, state and social security/medicare taxes is lowered. The amount you save in taxes depends on the amount of your salary reduction and your taxable income with and without the salary reduction. You can approximate these savings by figuring out what your marginal or top tax rate is. The higher your marginal tax rate is, the more you save in taxes with this Plan.

### **Choice #2 The Income Tax Credit**

#### **Federal Tax Credit**

A percentage of your eligible dependent care expenses (\$3,000 for one dependent and \$6,000 for two or more dependents) can be taken annually as a credit on your federal tax return. The following table outlines the percentage credit that is available at different levels of adjusted gross income:

<b>Adjusted Gross Income</b>	<b>Tax Credit %</b>	<b>Adjusted Gross Income</b>	<b>Tax Credit %</b>
\$15,000 or less	35%	\$29,001 to \$31,000	27%
15,001 to 17,000	34%	31,001 to 33,000	26%
17,001 to 19,000	33%	33,001 to 35,000	25%
19,001 to 21,000	32%	35,001 to 37,000	24%
21,001 to 23,000	31%	37,001 to 39,000	23%
23,001 to 25,000	30%	39,001 to 41,000	22%
25,001 to 27,000	29%	41,001 to 43,000	21%
27,001 to 29,000	28%	43,001 or more	20%

**Example:** If you have an adjusted gross income of \$25,000, and eligible dependent care expenses of \$2,000, you may receive a federal income tax credit of \$600 (30% of \$2,000).

#### **Vermont Tax Credit**

The maximum Vermont dependent care income tax credit is 50% of the federal credit (\$600 x 50% = \$300), for a total income tax credit of \$900. This maximum credit may be reduced depending upon earnings. This credit is limited to a Single or Head of Household earning \$29,999 or less and Married Filing Jointly filers earning \$39,999 or less.

### **Choice #3 Combining the Tax Credit and Spending Account**

If you have two or more children and greater than \$5,000 in dependent care expenses, this choice should be considered. As the annual income tax credit for two or more children has now increased to \$6,000 of eligible expenses which is \$1,000 higher than the Dependent Care Flexible Spending Account limit of \$5,000, it makes sense to also apply for the tax credit on the additional \$1,000 of expenses, if applicable. The actual tax credit available will be based on adjusted gross income.

## Which Choice Is Best For You?

Your choice will depend on your marginal tax rate, your adjusted gross income, the type of income tax return you file, the amount of your dependent care expenses, and other factors such as itemized deductions.

While the exclusion and credit use similar definitions and limits, the exclusion can be more advantageous than the credit to taxpayers who are in higher tax brackets, but under the social security ceiling (\$106,800 for 2010). The exclusion creates a benefit equal to the taxpayer's tax bracket (i.e., 28% if the employee is in the 28% tax bracket), plus the corresponding social security tax reduction.

The credit, on the other hand, is usually more beneficial to taxpayers with lower AGI, because the credit may be up to 35% of expenditures, while the benefit from the exclusion will be less as a result of the taxpayer's lower tax bracket. The credit phases out at \$43,000 of AGI to 20% of qualified expenses up to \$3,000 (\$6,000 for two or more qualifying individuals).

**Example 1:** Anne, a single parent, has one child. She has adjusted gross income of \$30,000 for 2010 and pays \$3,750 a year for child care.

	<b>Flexible Spending Account</b>	<b>Tax Credit</b>
Eligible Expense	\$3,750	\$3,000*
Blended Tax Rate or Tax Credit	x 24.45% **	x 27% ***
<b>Tax Savings</b>	<b>\$917</b>	<b>\$810</b>
<b>Increase in Spendable Cash</b>	<b>\$107</b>	

\* Maximum allowed by IRS for one dependent

\*\* Federal 15%; social security/medicare 7.65%; state 3.6% (federal and state are based on AGI and social security/medicare is based on gross income).

\*\*\* Federal tax credit 27%

**Result:** Anne has \$107 more to spend with the Flexible Spending Account. The savings would increase to \$649 when the Earned Income Credit is considered. Also note she can save taxes on \$3,750 and is not limited to a \$3,000 maximum allowable expense under the tax credit.

**Example 2:** Jim and Sandy have two children. They have an AGI of \$47,000 for 2010, filing a joint tax return, and spend \$6,000 a year for child care.

	<b>Flexible Spending Account and Tax Credit</b>	<b>Tax Credit</b>
Eligible Expense	\$5,000+	\$6,000*
Blended Tax Rate or Tax Credit	x 25.54% **	x 20% ***
<b>Tax Savings on FSA</b>	<b>\$1,277</b>	<b>\$1,200</b>
<b>\$1,000 expense x 20% ++</b>	<b>\$200</b>	
<b>Total Tax Savings</b>	<b>\$1,477</b>	
<b>Increase in Spendable Cash</b>	<b>\$277</b>	

+ Maximum contribution allowed by IRS for Flexible Spending Account

++ Excess eligible expense for tax credit after utilizing maximum FSA

\* Maximum allowed by IRS for two dependents

\*\* Federal 15%; social security/medicare 7.65%; state 3.6% (federal and state are based on AGI and social security/medicare is based on gross income).

\*\*\* Federal tax credit 20%

**Result:** They have \$277 more to spend with the full utilization of the Flexible Spending Account and

using the excess \$1,000 expense to receive a tax credit.

### **Federal Earned Income Tax Credit**

The Earned Income Tax Credit is for qualifying workers (those earning less than \$43,415 per year) to offset the impact of social security taxes. The credit is based on earned income, which includes wages plus the salary reduction from a cafeteria plan, salaries, other compensation, and earnings from self-employment. Earned income does **not** include pension or social security benefits. The estimated maximum federal earned income tax credit for income ranging from \$8,950 to \$19,540 is \$3,043 (one dependent) or \$5,028 (two dependents). For income greater than \$19,540, the credit begins to phase out, until it is completely phased out at \$38,583 for one child and \$43,415 for two or more children.

### **Vermont Earned Income Tax Credit**

A Vermont earned income tax credit is available in addition to the federal earned income tax credit. To estimate the Vermont amount, multiply the federal earned income tax credit by 32% and meet additional AGI and number of children requirements. If your marginal federal income tax rate is 28% or more, the Flexible Spending Account will save more taxes than the dependent care tax credit. If your marginal federal income tax rate is 10%, the dependent care tax credit may be more beneficial.

### **Excess Dependent Care Amounts**

If you have excess dependent care expenses after reaching the maximums under either Choice 1 or 2, you may allocate the excess to the other choice in certain circumstances. The amount that a taxpayer may use in calculating the tax credit choice is reduced, dollar for dollar, by amounts excluded from income under the Flexible Spending Account.

### **Reporting Requirements**

The IRS requires taxpayers to report dependent care provider information on Form 2441, whether they use the Credit or the Spending Account. This form is used to compute the Credit and dependent care expenses, and show that the funds allocated to the Spending Account were used for that purpose.

### **Caution**

This information is not intended to be tax advice and is subject to change. For further information, you may wish to consult your tax advisor.

## Cafeteria Plan Administration

### Termination of Employment under the Cafeteria Plan

If you terminate employment, there are rules you should be aware of regarding participation in the Health and Dependent Care Flexible Spending Accounts.

- **Expenses Incurred Before Termination** - Expenses incurred during the Plan Year in which you leave and before your termination of employment can continue to be submitted for reimbursement. You have until May 31 after the end of the Plan Year to submit those claims.
- **Expenses Incurred After Termination** - Expenses incurred during the Plan Year in which you leave and after your termination of employment are not eligible for reimbursement, however, see below for exceptions.
- **Contributions Cease** - Your before-tax contributions will stop with your last paycheck. In addition, any MBA that you allocated to the Plan(s) will cease as of the end of the month in which you terminate. You may elect to make after-tax contributions to the Plan(s) as described below.
- **Dependent Care Flexible Spending Accounts** - Upon termination, you may continue to participate in the Plan for the balance of that Plan Year on an after-tax basis.
- **Health Care Flexible Spending Accounts** - You may continue to participate in the Plan as a COBRA participant for the remainder of the plan year in which termination occurred, but only if you have contributed more money than you have taken out in claims. For example, if you elected to contribute \$500 per year, and at the time you terminate employment, you have contributed \$300 but only claimed \$150, you may elect to continue coverage and could continue to receive your health care reimbursements, up to the \$500. However, you must continue to pay for coverage on an after-tax basis. The Plan can also charge you an extra amount to provide this benefit. The Administrator will provide you with more information if you become eligible for COBRA.

### Rules for Mid-Year Election Changes under the Cafeteria Plan

Under IRS rules, once you have made an election, it will remain in force for the remainder of the Plan Year (that is, January 1 through December 31). As long as written notification is provided to the Plan Administrator within thirty (30) days of an event that caused a change in status, you are permitted to change an election for the following reasons (as long as the change is consistent with the reason for the change):

- **On the January 1 plan anniversary each year** - You are permitted to change your benefit election(s) during the annual open enrollment period.
- **Marital Status** – A legal marital status change (including the employee's marriage, divorce, legal separation, annulment, or death of a spouse).
- **Number of Dependents** - A change in an employee's number of dependents, (including birth,

adoption, placement for adoption, or death of a dependent).

- **Employment Status** – A change in the employment status of the employee, spouse, or dependent, including termination or commencement of employment, reduction or increase in hours of employment (including a switch between part-time and full-time employment that would change eligibility for the Plan), strikes and lockouts, commencement or return from an unpaid leave of absence, change in worksite, or other employment status changes that impact eligibility.
- **Dependent Status** – A change in an employee's unmarried dependent's eligibility (i.e., attainment of a stipulated age, student status, or similar circumstance).
- **Residence or Work Site** - A change in the place of residence or work site of the employee, spouse, or dependent.
- **Qualified Medical Child Support Order** - in the event of a legal order which requires health coverage for an employee's child, the Plan may change an election to provide coverage for the child, or the employee may cancel coverage for the child if the order requires the former spouse to provide coverage.
- **Entitlement to Medicare or Medicaid** - Employees may cancel health coverage for the employee, spouse or dependent if the employee, spouse or dependent becomes enrolled under Medicare Part A or Part B or Medicaid.
- **COBRA** - Participants may change elections if a qualifying event occurs, such as if a former employee is receiving severance pay, in which case it may be possible to arrange for pre-tax COBRA premium deductions out of the severance pay.
- **Cost or Coverage Changes** – If the cost of a benefit increases or decreases during a Plan Year, the Plan will automatically increase or decrease the salary reductions of affected participants. If the cost of a benefit increases significantly, or a benefit is significantly changed, added or dropped, affected participants also have the choice to revoke their election and select an alternate option (or elect the option if it is newly added).
- **Special Enrollment Rights** – Employees may enroll in health coverage for the employee, spouse or dependent if the employee, spouse or dependent loses coverage under Medicaid or state children's health plan, or becomes eligible for state premium assistance to purchase coverage under the health plan, as long as they request coverage within 60 days.

## Medical and Dental Insurance Premium Conversion Explanation

If you choose benefit options that cost more than your MBA, you must pay the difference. Premium Conversion allows you to make your contribution on a pre-tax basis. By doing so you will be able to reduce your federal and state income taxes, and also your social security and medicare taxes, as outlined below:

	With Premium Conversion	Without Premium Conversion
Bi-weekly salary	923.08	923.08
Medical Premium Reduction	31.15	0
Dental Premium Reduction	<u>38.32</u>	<u>0</u>
<b>Taxable Salary</b>	<b>851.61</b>	<b>923.08</b>
Federal Tax Withholding	0	8
State Tax Withholding	0	2
Social Security/Medicare	65.15	70.62
Medical Premium Deduction	0	33.15
Dental Premium Deduction	<u>0</u>	<u>38.32</u>
<b>Remaining Spendable Pay</b>	<b>786.46</b>	<b>770.99</b>
<b>Increase Per Pay Period</b>	<b>15.47</b>	
<b>Annual Increase</b>	<b>402.22</b>	

Effective January 1, 2010, each employee who elects Medical and/or Dental coverage that requires an employee contribution will automatically have their premium paid on a pre-tax basis, unless you choose otherwise.

This automatic election does not apply to any funding amounts to a Health Savings Account (HSA). If you choose to fund the HSA for any differences between the maximum allowed and the amount the University is funding and/or “catch up” contributions available to those participants age 55 and older, you must provide this information on your online election form. If you have any questions, please contact Human Resources at (802) 485-2075 or (802) 485-2084.

### Declination

You have the right to decline having your premium deducted on a pre-tax basis. To do so, contact Jay Wisner to obtain a Declination Form. The completed form must be returned to him no later than 4:00 p.m. on December 15, 2009.

If you decline, you will be given an opportunity again in 2010 for the 2011 Plan Year. Please remember that, whenever you have a mid-year election change/change in status as outlined previously, you can change your election at that time.