Peralta Community College District Flexible Benefit Plan

Peralta Community College District is offering you the chance to participate in an exciting program which permits you to pay for your Medical, Daycare and Commuting expenses with Tax-Free dollars. Why is this so exciting? It's simple – because it saves you money! When you direct money into the Flexible Benefit Plan accounts listed below You Pay Less Taxes and Take Home More Pay.

The benefits of the Flexible Benefit Plan are sometimes overlooked and we wanted to take this opportunity to point out the ease of participating and the reasons why this opportunity is one you can't afford to pass up.

You can set aside tax free dollars for the following types of expenses:

- **Medical Insurance Premiums.** By allowing the district to deduct your portion of insurance premiums on a pre-tax basis you reduce what you owe in taxes and increase your take home pay! Just fill out one form at the beginning of the year and payroll will automatically reduce the amount you pay in taxes each pay-period.

- **Out-Of-Pocket Medical Expenses:** The things insurance doesn’t cover…your medical deductibles and office co-pays, prescription medications, dental services, eyeglasses, acupuncture and chiropractic treatments, even over-the-counter medications like Aspirin, Motrin, Nyquil, TUMS, Claritin, etc.

- **Work-Related Daycare Expenses.** For the care of your children, or even a dependent adult, while you are at work. Often this spending account arrangement will save you more money than taking the daycare tax credit on your tax return at the end of the year.

- **Commuting Expenses.** If you are using public transportation to get to and from work, you can use this spending account to save your self as much as $40/month!

Following is a brief overview of the spending account options. Please contact Benefit Dynamics if you would like a more detailed handbook. The handbook includes worksheets to help you calculate how much to set aside for each type of account and to estimate your tax savings.

If you have any questions, please feel free to call Benefit Dynamics at (925) 956-0514, Monday through Friday, 8:00 am to 5:00 pm (PST). or e-mail us at benefits@pensiondyamics.com. We will be happy to answer your questions and assist you in using in the plans to your greatest benefit.
Why Should I Participate in a Flexible Benefit Plan?

To pay less in taxes and have more spendable income! The Flexible Benefit Plan allows you to convert many expenses that were previously not deductible into expenses that can be paid with pre-tax dollars. You do this by making pre-tax contributions to the Flexible Benefit Plan. These contributions reduce your gross or taxable income so you pay less in taxes. When you pay for qualifying expenses with money that is now tax-free, the end result is that YOUR SPENDABLE INCOME WILL INCREASE.

In the example is shown in the table below we have taken a typical employee with a monthly base salary of $2000. In this example this employee has $455 of eligible expenses each month:

<table>
<thead>
<tr>
<th></th>
<th>Without Flex</th>
<th>With Flex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Base Salary</td>
<td>$2,000.00</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>FLEX Contribution</td>
<td>-$0.00</td>
<td>-$455.00</td>
</tr>
<tr>
<td>Adjusted Taxable Income</td>
<td>$2,000.00</td>
<td>$1,545.00</td>
</tr>
<tr>
<td>Federal Withholding</td>
<td>-$270.00</td>
<td>-$198.00</td>
</tr>
<tr>
<td>State Withholding</td>
<td>-$40.80</td>
<td>-$21.60</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>-$153.00</td>
<td>-$118.19</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$1,536.20</td>
<td>$1,207.21</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company sponsored Insurance Premiums</td>
<td>-$40.00</td>
<td>Paid (FLEX)</td>
</tr>
<tr>
<td>Medical/Dental/Vision</td>
<td>-$115.00</td>
<td>Paid (FLEX)</td>
</tr>
<tr>
<td>Daycare/month</td>
<td>-$300.00</td>
<td>Paid (FLEX)</td>
</tr>
<tr>
<td>Spendable Income</td>
<td>$1,081.20</td>
<td>$1,207.21</td>
</tr>
</tbody>
</table>

Using the Flexible Benefit Plan the *monthly increase in personal spendable income* is $126.01. This translates into an annual *take home increase* of $1,512.12.

*NOTE* We did not change the services or the providers, all that changed in this example was the *taxability* of the dollars used to pay the exact same expenses.

Medical Reimbursement Account

Although we provide you with health insurance coverage, chances are it doesn't cover 100% of your expenses. Although the I.R.S. allows you to itemize your out of pocket health related expenses, you will only receive a federal tax credit for any amount in excess of 7.5% of your adjusted gross income (e.g. someone with an adjusted gross income of $20,000 would receive a credit for any medical expenses in excess of $1,500). The Medical Expense Reimbursement Account allows you to save taxes on all of your qualifying health related expenditures up to the $2500 plan maximum for this year. This includes any uninsured/unreimbursed medical, dental and vision expenses for you and your dependents. Please refer to the following list of eligible expenses.
Eligible Expenses For Your Medical Reimbursement Account

The following list identifies eligible medical, dental, and vision related expenses as defined by the Internal Revenue Service. These expenses are eligible for reimbursement through your Medical Reimbursement Account provided they are incurred by you and/or your dependents during the plan year, are not covered by your insurance, and have not been reimbursed through any other benefit plan.

- Acupuncture
- Alcoholism and drug addiction treatment
- Allergy Medications
- Ambulance Transportation
- Artificial limbs and teeth
- Birth control
- Braces (wrist, knee, etc.)
- Capital expenses primarily for medical purposes (to the extent the value of your home is not increased)
- Chiropractic Treatments
- Cold and flu remedies
- Contact lenses and supplies
- Contraceptives
- Co-Payments to Doctors or for Prescriptions
- Crutches
- Deductibles (Medical Insurance)
- Dental treatments (excluding teeth bleaching)
- Diabetic Supplies
- Eye examination
- Eyeglasses (corrective lenses)
- Fees to doctors and hospitals including:
  - Anesthesiologist
  - Chiropractor
  - Clinic
  - Dentist
  - Dermatologist
  - Gynecologists
  - Midwife
  - Obstetrician
  - Hearing aids and batteries (including upkeep and maintenance)
  - Infertility treatment
  - Insulin and related supplies
  - Laboratory fees
  - Laser/Lasik eye surgery
  - Lodging necessary for medical care (within limits)
  - Mentally challenged (special tutoring/care of)
  - Nursing care
  - Nursing home (only for medical reasons)
  - Office Visit Co-Payments (for medical appointments)
  - Orthodontia (monthly installment payments)*

- Over-the-counter Drugs and Medications**
  - Oxygen equipment
  - Pain Relievers
  - Physical Therapy
  - Pregnancy tests
  - Prescription drugs and medicines
  - Radial Keratotomy / Orthokeratology
  - Rental of medical equipment (if medically necessary)
  - Smoking cessation programs
  - Sterilization
  - Support or corrective devices (i.e. orthopedic shoes)
  - Surgery (excluding cosmetic procedures)
  - Therapy (for a diagnosed mental condition)
  - Transportation expenses for medical care (mileage, parking, tolls, bus, taxi)
  - Wheelchair
  - X-rays

The Following Expenses Are NOT ELIGIBLE:
This is not meant to be a comprehensive list but rather a list of items commonly submitted for reimbursement.

- COBRA payments
- Cosmetic surgery/procedures
- Electrolysis
- Hair loss treatments / Rogaine
- Health club dues
- Insurance premiums
- Massage
- Medical Supplies (general household type)
- Over the counter items for general health (incl. vitamins, supplements, cosmetics)
- Teeth Bleaching (cosmetic)
- Tinted clips for prescription eyewear
- Weight loss programs (unless prescribed by a physician as treatment for Obesity)

REMEMBER: Only amounts NOT covered by insurance or reimbursed by another benefit plan are eligible for reimbursement.

* Please contact your plan administrator for details on how to submit claims for monthly orthodontia payments

**To the extent they are purchased for the treatment of a medical condition, illness, or injury.
Dependent Daycare**

If you, and your spouse (if you are married) are both employed, and incur expenses for the daycare of your children under age thirteen (unless disabled) or a dependent adult (not capable of self-care), you may be able to pay for your expenses with pre-tax dollars through the Dependent Daycare Account of the Plan. If your provider is over the age of eighteen, not your dependent, and able to declare the income, you may participate in the daycare account. You may not claim daycare expenses for days when your dependent is not living with you and you may not claim the federal credit and participate in the daycare account for the same expenses. Please see "Flex Plan vs. the Federal Daycare Credit" (in the Flex Plan Handbook) to determine which would be most beneficial for you. Your daycare deferrals will not appear as taxable wages on your W-2, however, the amount deducted from your pay is reported in Box 10. You will need to complete Form 2441 with your tax return to report the provider’s name, address, and Tax I.D. number. Additionally, the amount from Box 10 of your W-2 needs to be entered on line 17 of Form 2441.

*Please Note that “Educational Expenses” are not considered to be part of a Dependent Daycare program and are not eligible for reimbursement through this type of account. Therefore Pre-School tuition is allowable, however, kindergarten and private school tuition is not.

**Enrollment in a Flexible Benefit Plan will reduce your reportable income, therefore your Social Security Benefits/Disability may be affected by your election. However, most will find that the tax savings far out-weigh the potential negative impact.

Who is covered under my plan?

You, your spouse, and anyone who qualifies as your tax dependent to the IRS at the end of the year. They need not be covered under your company sponsored health insurance for you to be able to submit claims for them, in fact they need not be covered by insurance at all, they need only be your dependents and incur eligible out-of-pocket expenses. Domestic Partners are not recognized as spouses by the regulations. They would only qualify if they are your financial dependent.

How do I enroll in the plan?

Complete an enrollment form and return it to your Human Resources representative in the district office.

What if I Change My Mind?

You will have an opportunity at the beginning of each plan year to make any changes you wish. However, you may not change your elections or cease participation during the plan year without a qualifying change in family status. If you have a family status change that affects your need for benefits, you may be able to make changes to your elections accordingly. For example, if you gain a dependent your medical expenses might increase. In this example you could increase, but not decrease your Medical Reimbursement Account election.

Upon the occurrence of a qualifying event, you will need to complete a “Change of Status” form (available through H/R) and submit it within 30 days of that event. All requests for election changes are subject to approval by the Plan Administrator.

Use It Or Lose It

Be conservative when making your election. It is better to reach your maximum election amount early in the year than to have funds left over at the end of the year that you cannot claim. The I.R.S. requires any unused funds in the account at the end of the plan year be turned over to the employer, not the employee who forfeited them. The IRS has very strict guidelines on how these funds can be used by the employer. It is not to anyone’s benefit to have employees forfeit funds. We at Pension Dynamics Corporation make every effort to help you “use up” your annual elections.

For More Information

And/or enrollment forms, contact Benefit Dynamics at (925) 956-0514 or benefits@pensiondynamics.com
Annual Expenses Worksheet

This worksheet will help you estimate your annual medical and dependent care costs. Check the following list to identify expenses that pertain to you. This list is not intended to be comprehensive, but it contains some of the more common medical and dependent care expenses. Please refer to the list of eligible expenses for your Medical Reimbursement Account for additional qualifying expenses. Remember to be conservative when calculating your election and list only expenses NOT covered by your insurance.

<table>
<thead>
<tr>
<th>Qualifying Daycare Expenses</th>
<th>Estimated Annual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts paid to a daycare center</td>
<td>$</td>
</tr>
<tr>
<td>Amounts paid for daycare inside your home</td>
<td>$</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualifying Medical Expenses</th>
<th>Estimated Annual Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chiropractic, acupuncture, holistic treatments</td>
<td>$</td>
</tr>
<tr>
<td>Eye exams, prescription glasses &amp; frames</td>
<td>$</td>
</tr>
<tr>
<td>Corrective contact lenses &amp; solutions</td>
<td></td>
</tr>
<tr>
<td>Dental expenses (cleanings, fillings, crowns, etc.)</td>
<td>$</td>
</tr>
<tr>
<td>Orthodontia (monthly payments)</td>
<td>$</td>
</tr>
<tr>
<td>Mental health counseling</td>
<td>$</td>
</tr>
<tr>
<td>Office visit co-payments and deductibles</td>
<td>$</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>$</td>
</tr>
<tr>
<td>Physical therapy, rehabilitation services</td>
<td></td>
</tr>
<tr>
<td>X-rays, medical tests, &amp; lab services</td>
<td>$</td>
</tr>
<tr>
<td>Over-the-counter Drugs and Medications*</td>
<td>$</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

| Total Annual Expenses                            | $                        |

**Note:** You may consult I.R.S. Publication 502 as a reference for qualifying expenses. However, some expenses are treated differently by code section 125. Please consult your plan administrator if you have any question as to what constitutes an eligible expense.

*Over-The-Counter Drugs and Medications only qualify for reimbursement under a Flexible Benefit Plan if they are primarily used for the treatment of a medical condition, injury, or illness.