

THE ADVANTAGE OF *Choice*


COLONIAL
SUPPLEMENTAL INSURANCE

for what happens next®

Health Care Flexible Spending Account

A plan that enhances your benefits

Would you be interested in a plan that helps pay out-of-pocket medical costs while increasing your spendable income? Your employer is offering such a plan—it's called a **health care flexible spending account**. This benefit qualifies under Code Section 125 of the IRS. Code Section 125 was created by the United States Congress to make benefits more affordable for you.

How it works

If you participate, you will elect to have a specified amount of pretaxed money deducted from your paycheck each pay period. These dollars are set aside in a reimbursement account and subtracted from your gross earnings before any taxes are taken out. After you submit a receipt for a qualifying health care expense, you will be reimbursed from this account.

How it benefits you

The advantage of participating is that when you contribute pretax dollars to a reimbursement account, you lower your taxable income; therefore, you pay less in taxes and increase your spendable income!

For example...

John's status:

Married
three fed./state exemptions
Weekly salary: \$500
Qualified benefits:
Health care FSA: \$31 per week

John's daughter needs braces that will cost \$1,200 next year. His major medical deductible is \$200.

Plus, he needs glasses, which cost \$212.

Based on these expenses, John knows he'll be spending at least \$1,612 on non-covered medical expenses over the course of the year.

Dental Care	\$1,200
Major Med. Deductible	\$200
Vision Care	\$212
Total	\$1,612
	per year or \$31 per week

Review the sample below to see how a health care flexible spending account (FSA) can help increase John's spendable income.

After being reimbursed from the health care FSA, John's spendable income increases \$7.42 per week. Annually, he has increased his spendable income by \$385.84!

	Before Health Care FSA reim.	After Health Care FSA reim.
Gross pay	\$500.00	\$500.00
Pretax Health care FSA	-0-	- 31.00
Taxable gross	500.00	469.00
FICA, fed. & state taxes	- 71.42	- 64.00
Net pay	\$428.58	405.00
Health care FSA reimbursement		+31.00*
Spendable income	\$428.58	\$436.00

* The amount and number of times John is reimbursed will depend on the receipts he submits for qualified medical expenses and the frequency with which his plan makes reimbursements.



Eligible expenses

A health care FSA may be used to pay health care expenses not covered under any other plan. Qualified expenses may include:

- ◆ Deductibles and other payments you must make under your medical plan.
- ◆ Charges that may not be covered by your medical plan, such as:
 - Dependent physicals
 - Well-baby care
 - Eyeglasses/contact lenses
 - Birth control pills
 - Hearing aids
 - Dental care
 - Braces
 - Routine exams
- ◆ Miscellaneous expenses, such as:
 - Individual psychiatric or psychological counseling.
 - Special education devices for the blind (such as a typewriter).
 - Special instructions or training for the deaf (such as lip reading).
 - Cost of acquiring and training a dog for the deaf or blind.
 - Public transportation to receive medical care (must provide receipt).
- ◆ Other health care services that qualify as medical deductions under IRS rules:
 - Special medical equipment.
 - Qualified medical products or services prescribed by a doctor for which you must pay out-of-pocket.

Please refer to Section 213(d) of the Internal Revenue Code for the IRS definition of deductible medical expenses that are eligible for reimbursement.

Note: An expense is not eligible if it is for cosmetic reasons only. Also, premiums for health coverage are not eligible for reimbursement.



How much should I contribute?

Now that you have a better idea of what qualifies, try to determine how much you might spend on these types of expenses during the next plan year. To be safe, be conservative in your estimates. Use the worksheet included in this newsletter. And remember, the expenses you choose cannot be covered by any other medical plan.

Use it or lose it

The “Use it or lose it” rule:

If you contribute dollars to a flexible spending account and do not use all of the monies you deposit, you will lose any remaining balance in the account at the end of the plan year.

A very important thing to remember...the rule exists because the IRS has established strict guidelines on plans that have tax advantages. Estimate carefully the amount you want to contribute, and only contribute dollars that you're confident will be used before the end of the plan year.

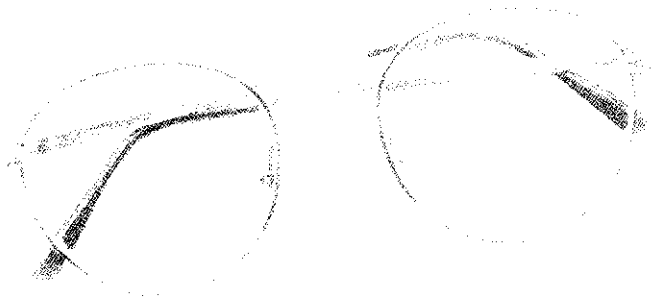
What if the tax laws change?

What if the tax laws change?

Tax advantages currently available are based on the law as it stands today. If a change in the law takes place, you will be notified.

Will pretaxing have an impact on Social Security benefits?

Any reduction in your taxable pay may also lead to a reduction in your Social Security benefits; however, for most employees, the reduction in Social Security benefits is insignificant compared to the value of paying lower taxes today.



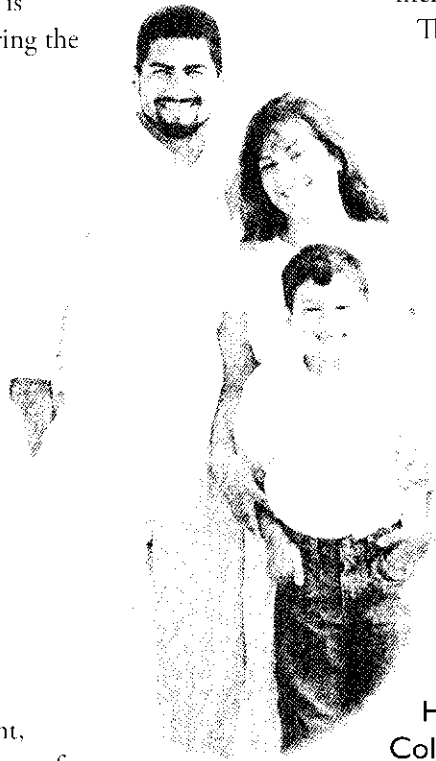
Will I be able to change in my election?

The latest set of cafeteria plan regulations develops a process for determining if a participant is allowed to make a change in election during the plan year. The two-step process is:

- 1) *A change in status must have occurred.* A change in status has occurred if the event falls into one of the categories below:
 - ◆ Legal marital status
 - ◆ Number of dependents
 - ◆ Employment status
 - ◆ Dependent satisfies (or ceases to satisfy) eligibility requirements
 - ◆ Change of residence
- 2) *The participant's election change must be consistent with the status change event.* In order to be consistent, a requested change must be on account of and correspond with a change in status that affects eligibility for coverage under an employer-sponsored plan.

Understand your choices.

With this program, you have benefit choices and opportunities you've never had before, so it's important to understand everything completely. Reading this newsletter is the first step. The next step is to **attend a planning session**. At the session, your Colonial representative can answer questions and estimate your tax savings, based on the amount you plan to contribute.



The value of additional benefits

During enrollment, you can take advantage of your increased spendable income by adding other benefits. Through your employer's flexible benefits plan, you'll be able to pay the premiums for qualifying benefits with pretax dollars, making your benefits even more affordable.

Let's take another look at John's situation. If John chooses to deduct \$20 per week in qualified premiums from his gross pay, along with his \$31 health care FSA deduction, here's how it affects his paycheck:

Health care FSA and pretax premiums illustration

John's status: Married
Three federal/state exemptions
Weekly salary: \$500
Eligible expenses:
Health care FSA: \$31
Colonial pretax premium: \$20

	w/Health Care FSA	w/Health Care FSA & pretax premium
Gross pay	\$500.00	\$500.00
Pretax health care reduction	- 31.00	- 51.00
Taxable gross	469.00	449.00
FICA, fed. & state taxes	- 64.00	- 59.21
Net pay	\$405.00	\$389.79
Health care FSA reimbursement	+31.00	+31.00
Spendable income	\$436.00	\$420.79

John's taxes are even lower—\$59.21 versus \$64.00. He has purchased \$20 in additional benefits, but his spendable income is only \$15.21 lower than before.

You, too, can tailor a benefits package by choosing the products you want and need, while reducing your tax burden.

Save this newsletter.

Keep this newsletter and worksheet for future reference. Additional copies are available through your employer. Take the time to complete the attached worksheet and determine whether or not the health care FSA is beneficial for you. Then plan to meet with your Colonial representative. You'll be amazed at the benefits you can enjoy through The Colonial Advantage.

Health Care Flexible Spending Account Worksheet

Estimating Your Eligible Medical Expenses

Complete the following chart to estimate your health care expenses for last year and this year. This chart will help you determine how much of your salary you may want to contribute to a health care reimbursement account. (For more information on types of expenses eligible for health care reimbursement, refer to the list included in this newsletter.)

Medical

	Last Year	This Year
Deductibles, plus 100 percent of out-of-pocket expenses not covered by medical plan.	\$ _____	\$ _____
Doctor's office visits.....	_____	_____
Well-baby care.....	_____	_____
Pap-smear.....	_____	_____
Physicals.....	_____	_____
Immunizations.....	_____	_____
Prescription drugs.....	_____	_____
Others.....	_____	_____

Dental

Fillings.....	_____	_____
Bridges.....	_____	_____
Crowns.....	_____	_____
Dentures.....	_____	_____
Orthodontia.....	_____	_____
Braces.....	_____	_____
Exams.....	_____	_____

Vision

Exams.....	_____	_____
Lenses.....	_____	_____
Frames.....	_____	_____
Contact lenses.....	_____	_____

Hearing

Exams.....	_____	_____
Hearing Aids.....	_____	_____

Miscellaneous

.....	_____	_____
.....	_____	_____

Total Eligible Medical Expenses \$ _____ \$ _____

Please refer to Section 213 (d) of the Internal Revenue Code of the IRS definition of deductible medical expenses that are eligible for reimbursement.

Note: An expense is not eligible if it is for cosmetic reasons only. Also, premiums for health coverage are not eligible for reimbursement.

A Colonial Representative can help you estimate your tax savings based on the amount you contribute to the health care reimbursement account.

Colonial Supplemental Insurance
 1200 Colonial Life Boulevard, Columbia, South Carolina 29210
www.coloniallife.com



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