

Portland School Department-Admin & Non Bargaining

ANNOUNCEMENT MEMO FOR FLEXIBLE BENEFITS PLAN

Portland School Department- Admin has established a special program that will offer tax savings for all employees who wish to take advantage of it. The Plan is called a FLEXIBLE BENEFITS PLAN and is permissible under Internal Revenue Code Section 125.

WHAT IS A SECTION 125 PLAN?

It is a method of reducing income taxes. If you are enrolled in the unit's group health insurance programs, and must contribute a portion of the monthly premiums, you now pay income taxes (federal, state and social security) on the amount that you contribute. Under this program, however, your contribution is not taxed.

The Dependent Care Reimbursement Account allows you to pay certain dependent care expenses with tax-free dollars. In other words, you do not have to pay federal, state, and FICA taxes on these earnings that are designated for dependent care reimbursement.

The Medical and Dental Care Expense Reimbursement Account allows you to pay for your healthcare expenses with tax-free dollars when they are not otherwise covered by a medical insurance Plan.

For example, for a single employee taking only 1 (one) exemption:

| | | |
|------------------|---|--------------|
| | gross weekly pay..... | \$370.00 |
| [Present method] | federal and state withholding (on \$370) | 63.00 |
| | insurance deduction | 14.00 |
| | Dependent Care Exp. | <u>70.00</u> |
| | NET PAY..... | \$223.00 |
| | gross weekly pay..... | \$370.00 |
| [New method] | insurance deduction | 14.00 |
| | Dependent Care Ded..... | 70.00 |
| | federal and state withholding (on \$286) | <u>46.00</u> |
| | NET PAY..... | \$240.00 |

In the above example, the savings would be \$17 a week or \$884 a year. Obviously, each employee's savings will depend upon several factors, including the type of coverage elected (single, family, low option, high option, etc.) and tax bracket.

YOU ARE NOT REQUIRED TO PARTICIPATE in this program. If you decide to sign up, however, (and if you are subject to Social Security withholdings) you must understand that while you will save money by having your contribution deducted tax free, you may have slightly less money contributed to your Social Security account.

You may wish to talk with your accountant or personal tax advisor before you decide. In any case, be sure to read the SALARY REDUCTION AGREEMENT form carefully. If you decide to take advantage of this program, please fill out the form, sign it and return it to the central office. In the meantime, if you have any questions, feel free to call Dee Dudley at the business office.