



## WHAT IS A PREMIUM CONVERSION PLAN?

**A** Premium Conversion Plan is a form of Cafeteria Plan specifically authorized by Section 125 of the Internal Revenue Code. It is a way of providing employees with valuable benefits - where the employee saves significant amounts on taxes by converting insurance premium payments from an after-tax payment to a pre-tax payment.

### ***How does a Premium Conversion Plan work?***

Because your employer's Group Health Insurance Program requires you to pay a portion of the premium, a Premium Conversion Plan allows you to make these payments on pre-tax rather than on an after-tax basis. These premium payments are considered salary redirections, or reductions. Therefore, as an employee, you will not owe Federal Income Tax, FICA, State or Local Tax on the premium amounts. You walk away with more dollars in your paycheck!

### ***Are there any special tax forms I will be required to file to take advantage of the tax deduction?***

No, an added advantage to these plans is that the process is handled by your employer through your payroll department. This is a valuable service that your employer provides to you - free of charge.

### ***Will there be any change in our insurance or fringe benefit programs made necessary by the Premium Conversion Plan?***

No, not at all. A Premium Conversion Plan just converts your premium payments to pre-tax, rather than after-tax deductions.

### ***When are salary redirections and benefits elected?***

Your Premium Conversion Plan operates on a twelve-month calendar year. Prior to the beginning of the plan year, you may elect to redirect a portion of your salary and make your premium payments. Once you have made the election to do so, you will not need to make the election again.

### ***What if I want to change my coverage under our Group Insurance Plan?***

In certain situations, you may wish to make a change in your benefit election. For example, if you were to decide to discontinue your Group Medical Coverage under our plan in order to be covered under your spouse's group medical plan, you must complete a Change of Family Status Form in order to discontinue your pre-tax premium deduction.

### ***What do I need to do?***

Simply fill out the attached Section 125 Enrollment Form, return the completed form to us and enjoy your increase in disposable income.

### ***What if I have questions?***

Human Resource Administrators, Inc. has been assigned to act as our consultant by the Plan Administrator. You can call them at (610) 282-4215.