

Old Dominion University Research Foundation *Welcomes YOU!*

We are pleased to offer to all eligible employees a *Flexible Spending Plan*

It's Your Choice!

- ◆ *Pick only the benefits you want*
- ◆ *Pay with tax-free dollars*

Each option is purchased with tax-free dollars, deducted from your pay before taxes are calculated! Since these dollars are free from federal, state and FICA tax, your **taxable** income is decreased while your **spendable** income is increased. Because your contribution to Social Security is slightly reduced, this may result in a lower benefit at retirement, so you may wish to set aside some of the tax savings in a retirement plan.

Joining the Plan is Easy!

- ◆ You can join the Plan when you are first eligible or during the Open Enrollment period.
- ◆ Simply complete the Election Form indicating your benefit choices. This allows ODU Research Foundation to set aside enough of your compensation to purchase the benefits you have selected. These amounts are deducted each pay period on a pro rata basis over the Plan Year.

With this plan you can choose the benefits that apply to you and your family, based upon a “menu” that ODU Research Foundation has designed. Your menu includes Medical and Dental Insurance and a Dependent Care Reimbursement Account. Current IRS rules require that you make your benefit elections prior to the beginning of the Plan Year during the Open Enrollment period immediately preceding the Plan Year. This way, you make choices as to which benefits best meet your needs, and if applicable, those of your family.

Your Plan, Your Choices!

There are two parts to your cafeteria plan. You may direct your tax-free dollars to either or both of the following areas.

Insured Benefits



Two of the options on the “menu” are insured benefits; Medical and Dental Insurance. Your share of the cost is deducted from your pay on a pre-tax basis and sent off to the insurance companies in payment of the premiums.

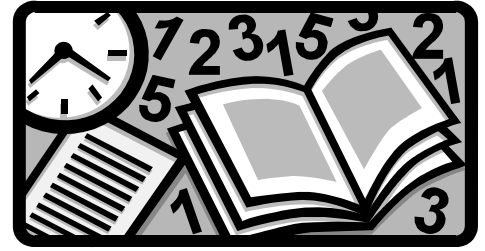
Dependent Care Reimbursement



You may use this account to pay the dependent care expenses necessary for you (and if you are married, your spouse) to work. These are the same types of dependent care expenses for which you can receive a tax credit. However, the tax savings from using the Dependent Care Account generally exceed the tax credit. A chart provided in the back of this booklet will allow you to compare your tax savings under this plan against the year-end credit.

The Reimbursement Account Process:

What is it and how does it work?



Dependent Care Reimbursement Account

Through this account, you may pay the dependent care expenses necessary for you (and if you are married, your spouse) to work, up to \$5,000 per year or \$2,500 per year if you are married filing separately. Expenses qualify only if they do not exceed the lower of your income or your spouse's income. However, if your spouse is a student or is incapable of caring for himself/herself, the spouse will be considered as having as much as \$400 per month income. By using this account, you will reduce on a dollar-for-dollar basis, the amount available under the year end tax credit for dependent care.

You must indicate the name, address and taxpayer ID number of the person or facility providing the care on your income tax return, whether you use the year-end income tax credit or the Reimbursement Account.

IRS rules require that you submit to your plan recordkeeper, ODU Research Foundation, an ***independent third party statement that*** you have incurred an eligible expense. Participants must submit fully itemized bills, receipts or contracts for the amount claimed that include:

- the dependent's name
- the type of service provided ("child care")
- the period in which the service was rendered
- the name, address and taxpayer ID number of the individual or organization providing the service
- signature of the care provider

When you have incurred an eligible expense, you simply forward your third-party statement to ODU Research Foundation along with a signed Reimbursement Request Form. Claims are due four (4) days before payday. This is the same day that time sheets are due for hourly employees. Reimbursement checks will be mailed to your payroll address within five working days following each payday.

Remember that the reimbursable services must be rendered within the Plan Year (7/1/2005 through 6/30/2006) and that expenses are reimbursable only after the service has been provided. Expenses cannot be reimbursed prior to the date of service, regardless of when payment was made.

If you use the Dependent Care Reimbursement Account, these expenses will offset the year-end credit on your income tax return on a dollar-for-dollar basis. For example, if you are a single parent and use \$2,000 from your Dependent Care Reimbursement Account to pay for your child's daycare bill of \$3,000, you may only claim \$1,000 in expenses toward the tax credit. This is because the maximum qualifying expense amount under the tax credit is \$3,000 and you cannot use that credit for expenses reimbursed under the Dependent Care Reimbursement Account.

Remember: Using the Reimbursement Account saves you federal, state and FICA taxes on expenses that you have to pay anyway!

Important Rules Regarding Your Plan



As with any decision, it is important to weigh the tax savings and rules prescribed by the Cafeteria Plan against any possible tax savings you may currently experience. There are only a few rules regarding the Plan, so let's look at them now:

1. The "use it or lose it" rule. If you set aside more dollars in your Reimbursement Account than you use during the Plan Year, IRS rules require that leftover funds be forfeited. However, as long as the expense was **incurred** during the Plan Year, you will have an additional 90 days following the close of the Plan Year to submit for reimbursement for that year. **Please remember "incurred" means when the service was performed and not when it was paid for or billed.**

2. Eligible, reimbursable expenses must be incurred during the Plan Year.

3. Election changes are allowed only during each Open Enrollment or if you have a qualifying event as specified below:

CHANGES IN STATUS:

- ◆ Change in legal marital status, including marriage, death of spouse, divorce, legal separation or annulment
- ◆ Change in number of dependents, including a change due to birth, adoption, placement for adoption or death of a dependent
- ◆ Termination or commencement of employment by employee, spouse or dependent
- ◆ Reduction or increase in hours of employment by employee, spouse or dependent, including a switch between part-time and full-time, a strike or lockout or commencement or return from an unpaid leave of absence
- ◆ A dependent satisfying or ceasing to satisfy the requirements for coverage due to the attainment of age, student status or any similar circumstance as provided in the accident and health plan under which the employee receives coverage
- ◆ Change in residence or place of work by employee, spouse or dependent
- ◆ Revocation or modification of benefits to include significant cost increases or decreases, coverage curtailment, addition or elimination of benefit option, change in coverage or spouse or dependent under other employer's plan.

Election changes must be consistent with Status Change (the election is necessary or appropriate as a result of the Status Change) and should be made within 30 days.

CHANGES RELATING TO HIPAA/COBRA:

An election for health insurance coverage may be revoked and a new election made if the new election corresponds with the special enrollment rights under HIPAA and COBRA.

- ◆ A Change in Status occurs that results in entitlement to COBRA continuation coverage by employee, spouse or dependent; the Flex Plan election may be increased to pay for the COBRA coverage on a pre-tax basis
- ◆ Employee, spouse or dependent becomes entitled to Medicare or Medicaid (other than for pediatric vaccines;) an election to cancel coverage for the employee, spouse or dependent may be made
- ◆ This Plan extends benefits to a Participant's non-custodial child, as required by any qualified medical child support order (QMCSO), as defined in ERISA § 609(a). The Plan has detailed procedures for determining whether an order qualifies as a QMCSO. Participants and beneficiaries can obtain, without charge, a copy of such procedures from the Administrator.

Election changes should be made within 30 days.

NEWBORNS' AND MOTHERS' HEALTH PROTECTION ACT OF 1996:

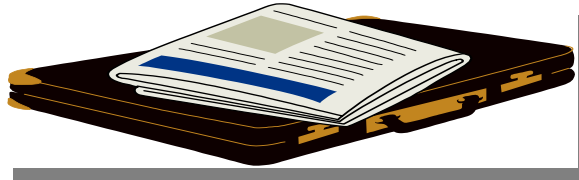
Group health plans and health insurance issuers generally may not, under federal law, restrict benefits for any hospital length of stay in connection with childbirth for the mother or newborn child to less than 48 hours following a vaginal delivery, or less than 96 hours following a cesarean section. However, federal law generally does not prohibit the mother's or newborn's attending provider, after consulting with the mother, from discharging the mother or her newborn earlier than 48 hours (or 96 hours, as applicable). In any case, plans and issuers may not, under federal law, require that a provider obtain authorization from the Plan or the issuer for prescribing a length of stay not in excess of 48 hours (or 96 hours).

4. If you should retire, become disabled or terminate employment during the Plan Year, any claims in existence at the time of termination would be paid. No more payroll deductions would be made, but you may choose to file claims at any time during the remainder of the Plan Year in order to be reimbursed for any contributions remaining in your account.

5. Should you fail to complete and return an Election Form during the Open Enrollment, only the election for insured benefits will remain in effect. Any election for Dependent Care will terminate.

WHAT'S IN IT

FOR ME??



Let's review how this impacts an employee with combined insurance premiums of \$20.00 per pay and \$120.00 per pay for daycare for her child.

	Without Cafeteria	With Cafeteria
Gross Pay:	\$800.00	\$800.00
Pre-tax:		
Insurance Premiums	-	20.00
Dependent Care Account	-	120.00
Taxable Income:	\$800.00	\$660.00
Taxes and Taxable Deductions:		
Federal	\$120.00	\$99.00
State	46.00	37.95
FICA	61.20	50.49
After Tax Expenses:		
Insurance Premiums	\$20.00	-
Dependent Care Expenses	100.00	-
Net Spendable	\$432.80	\$472.56

THE CAFETERIA PLAN DIFFERENCE:

\$39.76 per pay, or \$1,033.76 per year!

(Your own tax savings will vary depending upon your tax brackets, number of exemptions and benefit selections.)

OLD DOMINION UNIVERSITY RESEARCH FOUNDATION

Employee Worksheet

Plan Year 7/1/2005 - 6/30/2006

To help you decide upon your personal budget, we recommend that you use this worksheet to estimate your upcoming expenses. Costs are shown on a per-pay basis and deductions will be made from each paycheck. For your reference, Page 6 provides examples of eligible dependent care expenses.

**Per-Pay
Amount**

1. Medical Insurance

ODU Research Foundation offers a Medical insurance plan for all eligible employees. Your costs are shown on a separate handout.

If you select this option, please enter your cost here:

\$ _____

2. Dental Insurance

ODU Research Foundation offers a plan of Dental insurance for all eligible employees. Your costs are shown on a separate handout.

If you select this option, please enter your cost here:

\$ _____

3. Dependent Care Reimbursement Account

You may wish to use this account to set aside tax-free dollars for dependent care. Figure the total expenses you expect from the period of time 7/1/2005-6/30/2006. Divide by 26 for bi-weekly, 24 for semi-monthly.

(Minimum \$120.00 per Plan Year. Maximum \$192.30 bi-weekly, \$208.33 for semi-monthly. If you are married filing separately, the maximum is \$96.15 bi-weekly, \$104.16 semi-monthly.)

Amount you wish to set aside each pay:

\$ _____

Add together these amounts.

This is the total which will be deducted from your paycheck on a pre-tax basis:

\$ _____

Transfer these amounts to your Election Form.

RETURN YOUR COMPLETED ELECTION FORM(S) TO THE HUMAN RESOURCES DEPARTMENT.

Eligible Expenses for Dependent Care Reimbursement

For this account, dependents are defined as children through the age of 12, handicapped children or adults, or elderly individuals who rely on you for financial support. The person must reside in your household at least 8 hours per day, and the dependent care must be required to allow you (and if you are married, your spouse) to work. You may include payments to child care centers, nursery schools, as well as summer day camps, after-school care and care provided for elderly in your home. Payments made to a dependent of the taxpayer or the taxpayer's spouse, or to a child of a taxpayer who is under 19 are not includible. Kindergarten expenses are not includible. Employment taxes paid to care providers may be included.

ODU Research Foundation has established a minimum of \$120.00 per Plan Year, and you can set aside up to \$5,000 per year, or \$2,500 if you are married filing separately. *Since the goal of the plan is to provide a greater tax savings than you would receive on your tax return, we recommend you compare the tax credit you receive against the Federal, State and FICA tax savings enjoyed under the plan.* Below is a sample of the tax credit chart. This is calculated by multiplying "qualifying expenses" (maximum \$3,000 for one child and \$6,000 for two or more children) by the percentage that matches the adjusted gross income shown on your tax return.

Each payday an amount equal to your total reimbursement request divided by the number of paydays will be reduced from your pay and credited to your Reimbursement Account. Your account is debited to reimburse you for eligible expenses as requested. No Dependent Care reimbursements will be made that would reduce your account balance below zero. If you submit a Dependent Care Reimbursement Request that exceeds your account balance, you will automatically receive a reimbursement check each subsequent pay period until you have been fully reimbursed, up to the annual amount you have elected.

TAX CREDIT

Adjusted Gross Income	Percentage of Qualifying Expenses (Max \$3,000 for one, \$6,000 for two or more children)	One	Two +
		Child	Children
\$0-15,000	35	\$1,050	2,100
15,001-17,000	34	1,020	2,040
17,001-19,000	33	990	1,980
19,001-21,000	32	960	1,920
21,001-23,000	31	930	1,860
23,001-25,000	30	900	1,800
25,001-27,000	29	870	1,740
27,001-29,000	28	840	1,680
29,001-31,000	27	810	1,620
31,001-33,000	26	780	1,560
33,001-35,000	25	750	1,500
35,001-37,000	24	720	1,440
37,001-39,000	23	690	1,380
39,001-41,000	22	660	1,320
41,001-43,000	21	630	1,260
43,001 and greater	20	600	1,200

Using the Dependent Care Reimbursement Account will reduce on a dollar-for-dollar basis the amount of the year-end tax credit.