

## PREMIUM CONVERSION PLAN QUESTIONS AND ANSWERS

As part of our efforts to keep your medical benefit costs as affordable as possible, the company is pleased to sponsor a Premium Conversion Plan (the “Plan”). The Plan provides each eligible employee with the opportunity to set aside part of his or her pay on a pre-tax basis to pay for his or her share of health coverage contributions under the health care program sponsored by the company.

Following are commonly asked questions and answers describing the basic features of the Plan and how it operates. Please review these questions and answers carefully, and do not hesitate to ask questions. This is *your* benefit, and it is important that you understand how it works and how it can help you. However, you should note that the questions and answers address only the key parts of the Plan. Consult the Plan document or summary plan description for more details.

**1. What is the purpose of the Plan?** The purpose of the Plan is to permit eligible employees to elect to defer part of their pay on a pre-tax basis to defray their health coverage expenses.

**2. What is the Premium Conversion Benefit?** The Premium Conversion Benefit allows you to pay your share of the health coverage contributions with *pre-tax* dollars. If you do not elect to receive the Premium Conversion Benefit, you still will have to pay your share of the health coverage contributions under the company’s health care program, but on an *after-tax* basis.

**3. Are my Plan benefits taxable?** Under current law, the benefits you receive under the Plan are not currently taxable to you, nor are the benefits subject to federal income tax withholding and Social Security (FICA) withholding taxes. State law may differ.

**4. When and how do I elect the Plan benefits?** You will be provided a form when you first become eligible for participation in the Plan, upon which you may elect the Premium Conversion Benefit. If you elect the Premium Conversion Benefit, the health coverage contributions you are already making will be converted to a pre-tax basis. In future years, you will be furnished a new form by the first day of the annual enrollment period and be given the opportunity to confirm or change your existing choices for the coming plan year. 10% owners, sole proprietors, partners, or 2% owners of S Corporations (and their spouses and legal dependents) may not be eligible to participate.

**5. How does the Plan save me money?** The following example illustrates how the Plan saves you money. Assume that your gross income during the pay period is \$1,000, your required health coverage contribution is \$100, and you pay 25% in combined FICA, federal, and state income taxes. If you pay your health coverage contributions using the Premium Conversion Benefit you will save \$25 per pay period. This amount is computed as follows:

Pre-Tax Medical Plan		No Pre-Tax Medical Plan
\$1,000	Gross Income	\$1,000
-\$100	Contributions (pre-tax)	-\$0
\$900	Taxable Income	\$1,000
-\$225	Taxes	-\$250
\$675	Income after taxes	\$750
-\$0	Contributions (post-tax)	-\$100
\$675	Spendable Income	\$650

**6. Will I have any administrative costs under the Plan?** No. The company will pay the entire cost of administering the Plan.

**7. The Plan sounds too good to be true? Are there any reasons why I shouldn’t participate?** As discussed above, salary you elect to use to pay for Plan benefits is free from income and FICA taxes. This is a valuable benefit. However, because amounts deferred under the Plan are not counted as wages when determining your Social Security benefit, it is possible that there may be a reduction in your Social Security benefits. If your salary is above the Social Security Taxable Wage Base (\$68,400 in 1998) you probably will not be affected. If your salary is below the Social Security Taxable Wage Base, your Social Security benefits might be reduced. You should consult your own financial or tax advisor to determine the effects of electing to participate in the Plan.

**8. Can I change my election during the Plan Year?** Generally, you may not change or vary your elections during the Plan Year. However, you may change your elections during the annual enrollment period for the coming Plan Year. The Plan Administrator will advise you when you may elect to change your elections for the upcoming plan year.

There is an important exception to this general rule: You may change or revoke your election at any time during the Plan Year if there is one or more of the following, significant changes in your family status. Such changes include -

- your marriage or divorce;
- birth or adoption of your child;
- death of your spouse or child;
- termination of your spouse’s employment;
- change in the employment status of either you or your spouse from full-time to part-time, or vice versa;
- an unpaid leave of absence by you or your spouse; or
- a significant change in the health coverage of you or your spouse attributable to your spouse’s employment.

In order to change your current election, the event must relate to your election.

Additionally, the Plan Administrator may modify your election(s) downward during the Plan Year if you are a “highly compensated employee” or a “key employee,” to the extent necessary to prevent the Plan from becoming discriminatory within the meaning of the federal income tax law. The Plan Administrator also may adjust your Premium Conversion Benefit to reflect a change in the amount of the contributions for your health coverage benefits.