

**Pre-Tax Health Care Premium Conversion Plan
Waiver of Participation Form**

I understand that participation in a Section 125 Premium Conversion Plan, as explained in the accompanying Summary Plan Description, means:

1. My annual compensation will be reduced by an amount equal to my contribution to the group dental, vision, and/or health insurance plan.
2. My contribution to the group health insurance (and/or dental and/or vision) plan is being made with pre-tax dollars.
3. I cannot change or cancel these coverage's or the amount by which my compensation is being reduced during the plan year unless there is a change in my family status.
4. The administrator may reduce or cancel my compensation reduction or otherwise modify the above election if necessary to satisfy the provisions of the Internal Revenue Code.
5. I understand that if the premium changes during the plan year, the amount of compensation reduction will automatically be changed.
6. I understand that I have the right to waive participation in this plan.
7. I understand that I am **automatically enrolled** in this plan unless I sign this waiver below and return it to the Personnel Office.

By signing below, I understand that I waive my rights to the Pre-Tax benefit.

Signature _____ Date _____

Print Name _____

**Town of Andover
Pre-Tax Premium Conversion Plan
Summary Plan Description**

Effective July 1, 1990

What is the purpose of the plan?

The Town of Andover has established a Pre-Tax Premium Conversion plan to help employees save tax dollars and increase their net pay.

What is a Pre-Tax Premium Conversion Plan?

This is a plan established by your employer under Section 125 of the Internal Revenue Code, which allows participating employees to convert their health insurance premium contributions to a pre-tax expense. Employee's health insurance premium contributions are deducted from their paychecks before federal or state government taxes are calculated.

With Premium Conversion Plans, how will my taxes be calculated?

Your health insurance premiums will be deducted from your "gross" pay before any taxes are withheld. This reduces your taxable income. You will have more take home pay than if you paid your premiums with dollars that are taxed.

How are my taxes calculated now?

You are now taxed on your "gross" income, including base pay and other pay. You now pay federal, state, and social security taxes (where applicable), and then after these taxes are calculated, your health premium contribution would be taken on a post-tax basis. Social Security taxes are applicable only in the case of new hires for municipal employees. Municipal employees who commenced employment on or after April 1, 1986, currently contribute 1.45% in Social Security taxes, to a maximum earning schedule of \$51,300.

When does the plan begin?

The first plan year is July 1, 1990, through June 30, 1991. Future plan years will be the twelve-month period beginning on each July 1 and ending on each June 30. Each employee shall be eligible to be a member in the plan on the effective date of the plan if he or she meets the eligibility requirements and is enrolled in the group health plan offered by the Town. New employees will be eligible to participate in the plan as of the first full pay period following enrollment in the group health plans.

Is enrollment in the plan voluntary?

Enrollment in the plan is voluntary; however, because this plan is so beneficial, all employees will be automatically enrolled unless they sign a waiver of participation form. This form must be completed and signed at least 30 days prior to the start of each plan year. New employees will be given 30 days to waive participation in the plan.

Can participation in the plan be revoked or a new election be made during the plan year?

A member may not change contributions or benefit elections during the plan year unless there is a change in family status. Also, a member may not end participation in the plan during the plan year unless employment terminates or there is a change in family status. A member may increase or decrease contributions due to a premium change during the plan year but only to the extent of the premium change.

What is a change in family status?

If an employee experiences a change in family status, then they will be permitted to revoke benefit elections and make new elections during the course of the plan year. The revocation or new election must be consistent with the change in family status and must be made within 30 days of the change in family status.

The following circumstances constitute changes in family status:

- Marriage
- Divorce
- Death of spouse or child
- Birth or adoption of spouse or child
- Termination or commencement of employment of participant's spouse
- The change from part-time to full-time hours or vice versa by the employee or the employee's spouse
- The taking of an unpaid leave of absence by the employee or the employee's spouse attributable to the spouse's

employment

Does participation in this plan affect any other benefits?

The reduction in salary to allow for the pre-tax premium contribution does not have any affect on annual salary increases in accordance with any collective bargaining agreements or for the purposes of employee contributions or retirement benefit calculations under the contributory retirement system. It also does not affect death benefits under the group term life insurance. However, reducing taxable salary may affect the maximum amount that an employee can contribute to a tax-deferred annuity or to the state’s deferred compensation program since these limits are based on taxable salary. Also, Social Security retirement benefits may also be lower since lower FICA taxes are paid.

Can you provide an example of the possible savings available through a Section 125 premium conversion plan?

Yes. The next page of this summary plan description provides such an example...

Sample Section 125 Premium Conversion Plan

The example presented below assumes an employee is enrolled in the family Blue Cross/Blue Shield Master Health Plus plan (annual premium cost = \$3,947) and earns \$25,000 annually. Also, the example assumes the employee is paying a 15% federal tax and a 6.25% state tax rate.

<u>Post Tax</u>		<u>Pre-Tax</u>
\$25,000	Gross Pay	\$25,000
\$ 0	Pre-tax deduction (Employee’s health cost)	\$ 3,947
\$25,000	Adjusted Gross Income	\$21,053
\$ 5,313	Federal and State Taxes	\$ 4,474
\$ 3,947	Post-Tax deductions	\$ 0
\$15,740	Spendable Income	\$16,579
	<i>Increase in spendable income per year</i>	\$ 839

Formal Plan Name: Town of Andover Section 125 Pre-Tax Premium Conversion Plan

Plan Sponsor: Town of Andover
Andover Town Offices
36 Bartlet Street
Andover, MA 01810

Eligibility: All employees participating in the health insurance plan through a salary reduction arrangement are eligible to participate. Eligibility for health insurance coverage is determined in accordance with M.G.L. Section 32 B.

Plan Administrator: Town of Andover

Termination of Participation: A participant shall continue to participate in this plan until the earlier of the following dates:

- (1) The date the participant terminates employment by death, disability, retirement, or other separation from service; or
- (2) The date the participant ceases to work for the employer as an eligible employee.
- (3) The date on which the plan terminates.
- (4) The date the participant revokes his election of participation, i.e. during an open enrollment period.

Termination of Plan: The employer has established this plan with the bonafide intention and expectation that it will be continued indefinitely. However, the employer reserves the right at any time to terminate or amend the plan; provided, however, that such termination shall not affect a participant's right to reimbursement of claims already incurred.

THE SUMMARY PLAN DESCRIPTION IS INTENDED TO PROVIDE ONLY AN OUTLINE OF THE PLAN'S BENEFITS AND RULES GOVERNING THE AVAILABILITY. YOU MUST CONSULT THE PLAN ADMINISTRATOR AND/OR PLAN DOCUMENTS FOR CONTROLLING AUTHORITY.