

MEMORANDUM

TO: Personnel, Legislative and Public Affairs Subcommittee

SUBJECT: Authorization for P-MRNRD Employees to Participate in the NARD Flexible Benefits Plan

DATE: November 2, 2006

FROM: Pat Teer, Administrative Coordinator

The Board of Directors of the Nebraska Association of Resources District (NARD) formally approved the NARD Flexible Benefits Plan at their September 26, 2006 meeting. The NARD Flexible Benefits Plan is a "cafeteria plan" pursuant to Section 125 of the Internal Revenue Code of 1986, as amended.

The major advantage of this plan is that employees' contributions for the group health and dental premiums, the Health Flexible Spending Accounts and the Dependent Care Flexible Spending Accounts are deducted from the gross wages on a pre-tax basis. Mid-American Benefits, Inc., claims administrator for the NARD health/dental plan, will administer this plan. There is a \$2.50 per month charge for each participant in the plan. This charge will be offset because the District will not have to pay FICA taxes on the portion of the salary that is redirected.

Employee participation in the plan is on a voluntary basis.

The plan features three benefit options:

1. Insurance Premium Payment Option – This allows participants to pay for dependent coverage with pre-tax dollars. This option is currently available to District employees.
2. Health Flexible Spending Account – This will allow employees to pay for medical expenses not covered under the insurance plan, i.e., deductibles, \$30 co-pay for office visits; prescription drug co-pays, dental co-pays, etc., with pre-tax dollars. Employee contributions to the Health Flexible Spending Account cannot exceed \$2,400 during the plan year. The minimum contribution is \$40/month to offset administrative costs.
3. Dependent Care Flexible Spending Account – This option would allow participants to pay for dependant care with pre-tax dollars. In most cases employee contributions shall not exceed \$5,000 during the plan year.

It is recommended that the District participate in all three options listed in the plan and that the effective date be January 1, 2007.

The Participation Agreement with the Nebraska Association of Resources Districts for the NARD Flexible Benefits Plan, the suggested Resolution, the resolution passed by the NARD Board of Directors and a presentation regarding details of the plan are attached.

It is the Staff's recommendation that the PLPA Subcommittee recommend to the Board that the Acting General Manager be authorized to execute the Participation Agreement between the Nebraska Association of Resources Districts and the Papio-Missouri River NRD; that the District participate in all three options of the plan; that the effective date for P-MRNRD participation be January 1, 2007; and, that the resolution provided by the NARD be adopted.

**NEBRASKA ASSOCIATION OF RESOURCES DISTRICTS
FLEXIBLE BENEFITS PLAN**

PARTICIPATION AGREEMENT

Papio-Missouri River Natural Resources District (the "Participating Employer"), as a member of the Nebraska Association of Resources Districts, hereby adopts the Nebraska Association of Resources Districts Flexible Benefits Plan (the "Plan") as a Participating Employer of the Plan, and hereby agrees to be bound by all of the provisions, conditions and limitations of the Plan, as amended from time to time.

The adoption of the Plan by the Participating Employer shall:

- a. _____ Establish a new Plan effective as of _____, 200__.
- b. X Constitute an amendment and restatement in its entirety of a previously established Plan of the Participating Employer, which was effective July 1, 1996. The effective date of this amendment and restatement is January 1 , 2007.

The Participating Employer hereby elects to participate in the following programs:

- a. X Premium Only Plan
- b. X Health Flexible Spending Account
- c. X Dependent Care Flexible Spending Account

IN WITNESS WHEREOF, the parties have signed this Participation Agreement evidencing their consent to the adoption of the Plan by the Participating Employer.

Dated this 16th day of November , 2006.

**PAPIO-MISSOURI RIVER
NATURAL RESOURCES DISTRICT,**
Participating Employer

**NEBRASKA ASSOCIATION OF
RESOURCES DISTRICTS,**
Sponsoring Employer

By: _____

By: _____

Title: _____

Title: _____

**RESOLUTIONS OF THE BOARD OF DIRECTORS OF THE
PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**

A proposal was made by management of the Papio-Missouri River Natural Resources District (the NRD) to amend and restate the NRD's current cafeteria plan by becoming a Participating Employer in the Nebraska Association of Resources Districts Flexible Benefits Plan (the "NARD Plan"), as a Participating Employer to allow eligible employees to continue to make pre-tax contributions for selected benefits and to bring the Plan into compliance with applicable law and guidance. After complete review and full discussion, upon motion duly made and seconded, the following Resolutions were unanimously adopted:

RESOLVED, that the amendment and restatement of the existing Section 125 cafeteria plan of the NRD in its entirety as a Participating Employer of the Nebraska Association of Resources Districts Flexible Benefits Plan (the "NARD Plan"), effective as of January 1, 2007, is hereby authorized and approved;

RESOLVED FURTHER, that the Plan Year of the NARD Plan as the 12-month period commencing on January 1st of each year and ending on December 31st of each year, effective as of January 1, 2007, is hereby authorized and approved;

RESOLVED FURTHER, that the officers and management of the NRD are hereby authorized and directed to establish such reasonable, non-discriminatory, and uniformly applied rules and regulations for the administration of the NARD Plan as they deem appropriate from time to time, such rules in all cases are to be consistent with the provisions of the NARD Plan document and applicable laws;

RESOLVED FURTHER, that the officers and management of the NRD be, and they hereby are, authorized and directed to take such actions as may be necessary or appropriate to fully implement the foregoing Resolutions including, but not limited to the selection of the programs in the NARD Plan that the NRD shall participate in, the execution of the Participation Agreement and any other necessary documentation, the preparation and distribution of proper notices, and the preparation and distribution of explanatory booklets and materials to participants and beneficiaries;

RESOLVED FURTHER, that any and all actions taken and documentation executed by the management or the officers of the NRD to effectuate the foregoing Resolutions and the transactions described therein be, and they hereby are, approved and ratified.

DATED this 16th day of November, 2006.

Secretary

**RESOLUTIONS OF THE BOARD OF DIRECTORS OF THE
NEBRASKA ASSOCIATION OF RESOURCES DISTRICTS**

A proposal was made to adopt a Section 125 Flexible Benefits Plan of the Association, known as the Nebraska Association of Resources Districts Flexible Benefits Plan (the "NARD Plan"), effective as of October 1, 2006. After review and discussion, upon motion duly made and seconded, the following Resolutions were unanimously adopted:

RESOLVED, that the adoption of the NARD Plan as the Section 125 cafeteria plan of the Association effective October 1, 2006, is hereby authorized and approved;

RESOLVED FURTHER, that the Association shall be appointed as the Plan Administrator and as agent for service of legal process for purposes of the NARD Plan;

RESOLVED FURTHER, that the Plan Year of the NARD Plan be the 12-month period commencing on January 1st of each year and ending on December 31st of each year, is hereby authorized and approved;

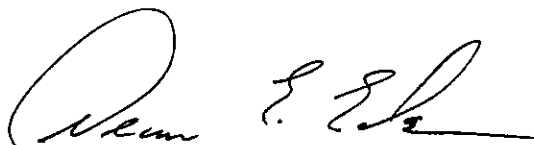
RESOLVED FURTHER, that, effective as of October 1, 2006, the adoption by only local Natural Resources Districts of the State of Nebraska, who participate in the Nebraska Association of Resources Districts' self-insured group health and dental program, may become participating employers in the NARD Plan as their existing Section 125 flexible benefits plan is hereby authorized and approved;

RESOLVED FURTHER, that the officers and Management of the Association be, and they hereby are, authorized and directed to take such actions as may be necessary or appropriate to fully implement the new NARD Plan effective October 1, 2006, including, but not limited to, execution of the NARD Plan document, execution of participation agreements and other necessary and appropriate documents, notification of employees and participants of the NARD Plan and preparation and distribution of explanatory booklets and materials;

RESOLVED FURTHER, that the officers and Management of the Association be, and they hereby are, authorized and directed to establish such reasonable, nondiscriminatory, and uniformly applied rules and regulations for the administration of the NARD Plan as they deem appropriate from time to time, such rules in all cases are to be consistent with the provisions of the NARD Plan document and applicable law; and

RESOLVED FURTHER, that any and all actions taken and documentation executed by the officers and Management of the Association to effectuate the foregoing Resolutions and the transactions described therein be, and they hereby are, approved and ratified.

DATED this 26th day of September, 2006.



Dean E. Edson, NARD Executive Director



Flexible Benefits Plan

Presented by Milt Willnerd
Willnerd & Associates, LLC

October 26, 2006

Any advice in this communication is limited to the conclusions specifically set forth herein and is based on the completeness and accuracy of the stated facts, assumptions and/or representations included. In rendering our advice, we may consider tax authorities that are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of our advice. We will not update our advice for subsequent changes or modifications to the law and regulations, or to the judicial and administrative interpretations thereof.

As required by IRS Circular 230, any advice expressed as to tax matters was neither written nor intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed under U.S. tax law or for the purpose of complying with IRS Circular 230.

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NARD Flexible Benefits Plan

Name of Plan

- Nebraska Association of Resources Districts Flexible Benefits Plan (Plan)
- Also, known as a "Cafeteria Plan" pursuant to Section 125 of the Internal Revenue Code

Effective Date of Plan

- October 1, 2006

Plan Year

- January 1 through December 31

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NARD Flexible Benefits Plan

What is the NARD Flexible Benefits Plan?

- Allows an employee to defer a portion of wages pretax to pay for medical costs, not covered by insurance
- Also, allows dependent care expenses to be paid with pretax dollars
- The Plan meets the requirements of Internal Revenue Code Section 125

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NARD Flexible Benefits Plan

Administration of the Plan

- Each Natural Resources District Office, with assistance from Mid-American Benefits, Inc., will be responsible for administering the plan with respect to their employees and plan participants

Participating Employers

- Any Natural Resources District Office who is a participating employer in the NARD self-insured group health and dental plan

Employee Participation

- An employee shall become eligible to participate effective as of the entry date under the Employer's group medical plan
- An eligible employee must complete an Election and Compensation Reduction Agreement in order to participate in the Plan

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NARD Flexible Benefits Plan

Employee Participation (continued)

- An employee who meets the eligibility requirements during the Plan year may elect to participate in the Plan for the remainder of the Plan year
- Except for the initial election period, the Election and Compensation Reduction Agreement must be signed before the beginning of the Plan year
- The initial election period will start on the date you first meet the eligibility requirements and end 30 calendar days after your entry date
- Election of benefits made shall be irrevocable until the end of the Plan year unless the participant is entitled to change his or her benefits as a result of a "change of status"
- Employee shall no longer participate in the Plan upon termination of employment, death or termination of the Plan

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NARD Flexible Benefits Plan

Benefit Options

- Each participant may elect any one or more of the following benefits:
 - Insurance Premium Payment Plan
 - Health Insurance
 - Dental Insurance
 - Group-Term Life Insurance
 - Accidental Death and Dismemberment Insurance
 - Cancer Insurance
 - Vision Insurance/Reimbursement
 - Prescription Drug Coverage

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NARD Flexible Benefits Plan

Benefit Options

- Each participant may elect any one or more of the following benefits (continued):
 - Health Flexible Spending Account
 - Dependent Care Flexible Spending Account

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NARD Flexible Benefits Plan

Health Insurance

- A participant may not be reimbursed for the cost of other health coverage such as premiums paid under plans maintained by the employer of the participant's spouse or individual policies maintained by the participant or participant's spouse or dependent

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NARD Flexible Benefits Plan

Contributions

- Benefits provided under the Plan shall be financed by “salary redirections” sufficient to pay for the benefits elected by the employee
- Any contribution made or withheld for the Health Flexible Spending Account or Dependent Care Flexible Spending Account must be credited to such account
- Any amounts in the flexible spending accounts that are not used during a Plan year (plus the grace period) must be forfeited by the participant

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NARD Flexible Benefits Plan

Annual Participant Elections

- If premium expenses apply, then the benefit elections in effect for the current plan year shall be deemed to have been made for the subsequent year, unless the participant completes a new Election and Compensation Reduction Agreement
- If premium expenses do not apply, then the participant shall be deemed to have elected **not to participate** in the plan for the upcoming plan year, unless the participant completes a new election of benefits form
- An employee who elects not to participate for the Plan year following the election period will have to wait until the next election period before again electing to participate in the Plan, except for a “change in status”

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NARD Flexible Benefits Plan

Change in Status

- Any participant may change a benefit election after the plan year (to which such election relates) has commenced and make new elections with respect to the remainder of such plan year if a “change in status” has occurred
- Currently, Federal law considers the following events to be a change in status:
 - Marriage, divorce, death of a spouse, legal separation or annulment
 - Change in the number of dependents, including birth, adoption, placement for adoption, or death of a dependent
 - Any of the following events for you, your spouse or dependent:
 - Termination or commencement of employment
 - A strike or lockout
 - Commencement or return from an unpaid leave of absence
 - A change in worksite
 - Any other change in employment status that affects eligibility for benefits

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NARD Flexible Benefits Plan

Change in Status (Continued)

- One of your dependents satisfies or ceases to satisfy the requirements for coverage due to change in age, student status, or any similar circumstances
- A change in the place of residence of you, your spouse or dependent that would lead to a change in status, such as moving out of a coverage area for insurance

In addition, if you are participating in the Dependent Care Flexible Spending Account, then there is a change in status if your dependent no longer meets the qualifications to be eligible for dependent care

- If the cost of a benefit option **increases significantly**, the Administrator shall permit the affected participants to make corresponding changes in their payments or revoke their elections and receive another benefit option with similar coverage or drop coverage if there is no benefit option with similar coverage

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Flexible Spending Accounts

Grace Period

- A participant can be reimbursed for medical expenses and employment-related dependent care expenses incurred during the “grace period”. The grace period ends on the fifteenth day of the third calendar month after the end of the plan year.
- For example, assuming the plan year ended December 31, 2007, the expenses incurred through March 15, 2008 can be counted as if incurred on December 31, 2007.
- Claims for reimbursable expenses must be submitted within 90 days after the end of the grace period (June 13, 2008 for the plan year ended December 31, 2007)

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Flexible Spending Accounts

Health Flexible Spending Account

- Medical expenses are treated as having been incurred when the participant is provided with the medical care that gives rise to the medical expenses, not when the participant is formally billed or charged for, or pays for the medical care
- Reimbursements for medical expenses shall be made up to the amount designated by the participant for the Health Flexible Spending Account for the Plan year
- A participant shall be entitled to reimbursement only for amounts in excess of payments under any health care plan covering the participant and/or spouse or dependents
- Currently, employee contributions to the Health Flexible Spending Account cannot exceed \$2,400 during the Plan year as approved by the NARD Board of Directors

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Flexible Spending Accounts

Dependent Care Flexible Spending Account

- On or before January 31st of each calendar year, the Employer must furnish a statement to each employee who was a participant and received dependent care benefits during the prior calendar year
- Amounts paid from a participant's Dependent Care Flexible Spending Account shall not exceed the lesser of following:
 - \$5,000 (\$2,500 if married and filing a separate tax return)
 - Employee's taxable compensation
 - Employee spouse's actual or deemed earned income
 - All amounts reimbursed to the participant are limited to the account balance in the participant's Dependent Care Flexible Spending Account

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Income Tax Reporting

- Employee contributions to the Flexible Benefits Plan **are not** included as wages on Federal Form W-2 for Federal and Nebraska income tax withholding purposes, and for computing social security and Medicare taxes
- Dependent care contributions withheld from a participant's wages, must be reported on the annual Form W-2 (i.e. Box 10 for 2006)
- Each employee must be given a copy of the Summary Plan Description for the NARD Flexible Benefits Plan
- When questions arise with respect to the plan, please consult with Mid-American Benefits, Inc. or your tax advisor

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Examples of Qualifying Medical Care Expenses

- Under the NARD Health Flexible Spending Account, you will be reimbursed only for qualifying medical expenses
- Examples of possible medical expenses you can be reimbursed for:
 - Medicine, drugs, birth control pills and vaccines
 - Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists and psychoanalysts (medical care only)
 - Medical examination, X-ray and laboratory service, insulin treatment and whirlpool baths the doctor prescribed
 - Nursing help. If you pay someone to do both nursing and housework, you can be reimbursed only for the cost of the nursing care

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Examples of Qualifying Medical Care Expenses

- Examples of possible medical expenses (continued):
 - Hospital care (including meals and lodging), clinic costs and lab fees
 - Medical treatment at a center for substance abuse
 - Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, orthopedic shoes, crutches, wheelchairs, guide dogs and the cost of maintaining them
 - Ambulance service and other travel costs to get medical care. If you used your own car, you can claim what you spent for gas and oil to go to and from the place you received the care; or you can claim the standard medical mileage rate. Add parking and tolls to the amount you claim under either method
 - Non-prescription drugs ("Over the counter" drugs), such as antacid, allergy medicines, pain reliever, and cold medicines

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Examples of Qualifying Medical Care Expenses

- Qualifying medical expenses include only those expenses incurred by you, your spouse, and any dependents you list on your Federal income tax return
- IRS Publication 502, Medical and Dental Expenses, has a checklist of most of the medical expenses that can be deducted and are reimbursable under the Plan. The web site to obtain a copy of IRS Publication 502 is www.irs.gov.

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Examples Of Medical Care Expenses You **Cannot** Be Reimbursed For

- The basic cost of Medicare insurance (Medicare A)
- Premium payments for life insurance or income protection policies
- Premium payments for accident or health insurance for you or members of your family
- Nursing care for a healthy baby
- Illegal operations or drugs
- Travel your doctor told you to take for rest or change
- Cosmetic surgery
- Long-term care expenses
- Vitamins or dietary supplements that are merely beneficial to your health

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Income Tax Savings Example #1

NARD Flexible Benefits Plan Computation of Income Tax Savings for Employees

(Assumes 15% Federal Income Tax Rate Bracket; Assumes Medical Reimbursement Account Participation; and Based on Current Year's Medical and Dental Premium Costs)

Type of Benefit	Insurance Coverage Options			
	Employee	Employee/ Spouse	Employee/ Child	Family
Medical/Vision	\$ 452.70	981.78	778.29	1,348.07
Dental	33.55	62.19	58.80	91.19
Medical Reimbursement Account	100.00	100.00	100.00	100.00
Monthly Cost	586.25	1,143.97	937.09	1,539.26
Less: Assumed Employer Cost	(486.25)	(486.25)	(486.25)	(486.25)
Monthly Cost to Employee	100.00	657.72	450.84	1,053.01
Number of Months	x 12	x 12	x 12	x 12
Total Annual Employee Cost	\$ 1,200.00	7,892.64	5,410.08	12,636.12
Computation of Income Tax Savings				
Social Security & Medicare Tax (7.65%)	\$ 91.80	603.79	413.87	966.66
Federal Income Tax (15.0%)	180.00	1,183.90	811.51	1,895.42
Nebraska Income Tax (4.0%)	48.00	315.71	216.40	505.44
Total Annual Employee Income Tax Savings (26.65%)	\$ 319.80	2,103.39	1,441.79	3,367.53



Income Tax Savings Example #2

NARD Flexible Benefits Plan

Computation of Income Tax Savings for Employees

(Assumes 25% Federal Income Tax Rate Bracket; Assumes Medical Reimbursement Account Participation; and Based on Current Year's Medical and Dental Premium Costs)

Type of Benefit	Insurance Coverage Options			
	Employee	Employee/ Spouse	Employee/ Child	Family
Medical/Vision	\$ 452.70	981.78	778.29	1,348.07
Dental	33.55	62.19	58.80	91.19
Medical Reimbursement Account	100.00	100.00	100.00	100.00
Monthly Cost	586.25	1,143.97	937.09	1,539.26
Less: Assumed Employer Cost	(486.25)	(486.25)	(486.25)	(486.25)
Monthly Cost to Employee	100.00	657.72	450.84	1,053.01
Number of Months	x 12	x 12	x 12	x 12
Total Annual Employee Cost	\$ 1,200.00	7,892.64	5,410.08	12,636.12
Computation of Income Tax Savings				
Social Security & Medicare Tax (7.65%)	\$ 91.80	603.79	413.87	966.66
Federal Income Tax (25.0%)	300.00	1,973.16	1,352.52	3,159.03
Nebraska Income Tax (5.0%)	60.00	394.63	270.50	631.81
Total Annual Employee Income Tax Savings (37.65%)	\$ 451.80	2,971.58	2,036.90	4,757.50

