CAFETERIA PLAN

IRS guidelines allow you to elect benefits offered through a “Cafeteria Plan” and pay your deposits with pre-tax dollars. There are some restrictions on how this salary reduction concept can be used. These restrictions are explained below.

Under the Cafeteria Plan, you may elect to participate in any or all of the following benefits:

A) Medical expense benefits
B) Flexible Spending Account, Dependent Care Account and the Transportation Spending Account
C) Group dental and vision benefits
D) Health Savings Accounts
E) Long-term disability benefits and group term life insurance. These benefits are not offered separately; you must elect both. Note also that any group term life insurance coverage in excess of $50,000 is provided on an after-tax contribution basis outside the Cafeteria Plan.

Your employee deposits for the benefits you elect under the Cafeteria Plan will be subtracted from your gross salary before taxes are calculated. All employees who elect Cafeteria Plan benefits will therefore experience savings in federal income taxes withheld. Those with incomes below the maximum Social Security wage base will experience FICA savings. State or local withholding tax savings will vary depending on the state or locality in which you live.

IRS RESTRICTIONS ON HOW THE CAFETERIA PLAN CAN BE OPERATED ARE AS FOLLOWS:

(1) The employee must elect to use the salary reduction arrangement before the effective date of coverage.

(2) No employee can enter or leave the Cafeteria Plan or change the amount of reductions being made until January 1 of each year, unless the revocation or change is consistent with and on account of a change in family status, such as marriage, divorce, death of a spouse or child, birth or adoption of a child, or a spouse's termination of employment, switching from part-time to full-time or full-time to part-time employment by employee or spouse, employee or spouse taking an unpaid leave, any significant change in health coverage of employee or spouse due to spouse's employment, or unless the employee wishing to enter the arrangement is also applying for enrollment in the Cafeteria Plan at the time of, or within 30 days of, his/her employment or reemployment with the Company. Changes to your coverage must be requested within 30 days of your family status change. NOTE: individual policies (section E above) may be added to the Cafeteria Plan during the annual open enrollment period only.

(3) Each December, prior to the beginning of the new Plan Year on January 1, participants will be given the opportunity to change or revoke their election to participate for any reason.

(4) Because FICA taxes will not be withheld on the salary reduction amount for those whose incomes are below the maximum Social Security wage base, Social Security benefits on these amounts will not accrue, resulting in a small reduction in the Social Security benefits you may receive. For most participants, this reduction will be quite modest. However, your increased spendable income will provide you additional flexibility to do your own retirement planning, for example, by investing in an IRA.

(5) By paying your medical premiums with tax-free dollars under the Cafeteria Plan, you will not be able to claim these amounts as an itemized medical deduction for federal income tax purposes. All other Liberty National, United Investors, or Torchmark benefit plans which tie the calculation of benefits to annual earnings will include the salary reduction amounts in the annual earnings calculation. Thus, all of your other benefits will remain the same whether or not you participate in the Cafeteria Plan. Also, all future salary increases will be calculated on your annual compensation figure which includes the salary reduction amounts.

If you have questions about the Cafeteria Plan, contact Lanesia Forrest at 205-325-2890 or Patti Herring at 205-325-2906.