WHAT IS A FLEXIBLE SPENDING ACCOUNT?

Flexible Spending Accounts are an attractive component of your employer's employee benefit plan. These accounts allow you to set aside *tax-free dollars* to pay for certain unreimbursed medical expenses and/or dependent care expenses for you and your dependents. In addition, you may pay your existing insurance premium contribution(s) on a pre-tax basis.

HOW MUCH CAN I SAVE IF I PARTICIPATE IN THE PLAN?

When you contribute to a Flexible Spending Account, you will **lower your taxes** (saving on federal, state, city and social security taxes) and **increase your take-home pay**. Your tax savings could be between 25% and 43%.

There are three categories of Flexible Spending Accounts. Here are brief descriptions of these categories, which are explained in greater detail later.

A PRE-TAX EMPLOYER-SPONSORED INSURANCE PREMIUMS

Under this plan you can pay certain insurance premium contributions on a pre-tax basis. These contributions are for your company-sponsored employee benefit plans only. **Your contributions will be automatically deducted from your paycheck.**

B HEALTH CARE SPENDING ACCOUNT

Through the Health Care Spending Account, the IRS allows you to be reimbursed for most out-of-pocket medical, dental, vision, and hearing care expenses.

In addition, the IRS has determined that you may now set aside money in your Flexible Spending Account for the reimbursement of certain over-the-counter (OTC) items purchased to alleviate or treat an illness or injury. These items include antacids, allergy medicine, pain relievers and cold medicine.

C DEPENDENT CARE SPENDING ACCOUNT

The Dependent Care Spending Account will enable you to pay for out-of-pocket, work-related, dependent-care costs on a pre-tax basis. If you are married, you can use the account if you and your spouse both work or, in some situations, if your spouse goes to school full-time. Single employees can also use the account.

A PRE-TAX EMPLOYER-SPONSORED INSURANCE PREMIUMS

The following contributions **may be** covered:

- Health insurance premiums under a medical plan
- Dental insurance premiums
- Vision insurance premiums
- Group-term life
- Cancer insurance
- Disability income insurance

B HEALTH CARE SPENDING ACCOUNT

This account operates a lot like a pre-tax checking account. Prior to the start of the plan year, you decide how much you want to contribute during the plan year, (up to $2,000 for September 1, 2005 - August 31, 2006). Your contributions are automatically deducted from your paycheck and deposited into the spending account.

The expenses are for anyone who is considered a legal dependent in your family. Your expenses must be **incurred** (incurred means date of service, NOT date of payment) within the plan year or prior to your employment termination date.

Over the counter items are now eligible for reimbursement. These items include antacids, allergy medicine, pain relievers, cold medicine and more. While most items are eligible for reimbursement, there are still some that are not. Any item that is purchased to maintain good health and not to treat or alleviate an illness or injury **is not** reimbursable. Please check the chart below.

WHAT MEDICAL EXPENSES ARE ELIGIBLE?

The following lists are **not intended to be comprehensive,** but they contain some of the more common medical expenses. The IRS determines the expenses that are allowable and disallowable. **IRS Publication 502,** Medical and Dental Expenses, has a checklist of the medical expenses that can be deducted under the Health Care Spending Account.

ELIGIBLE HEALTH CARE EXPENSES		INELIGIBLE HEALTH CARE EXPENSES
-Acupuncture	-Orthodontia	-Any Illegal Treatment
-Ambulance	-Orthopedic Shoes	-Babysitting Fees for Doctor Visit
-Artificial Limbs	-Over the Counter Drugs*	-Cosmetic Surgery (Elective)
-Chiropractors' Fees	-Physical Therapists' Fees	-Dental Bleaching/Teeth Whitening
-Christian Science Practitioners' Fees	-Podiatrists	-Domestic Help Fees
-Coinsurance	-Prescription Drugs)	-Ear Piercing
-Contact Lens Solution	-Prescription Eyeglasses and/or Contact Lenses	-Early Pregnancy Workshops
-Crutches	-Psychiatrists' Fees	-Health Club Memberships
-Dentists' Fees	-Psychologists' Fees	-Humidifiers
-Dentures	-Psychotherapists' Fees	-Insurance Premium Contributions to Your Spouse's Health or Dental Insurance Programs
-Dermatologists	-Retin-A to Treat Acne	-Lens Replacement Insurance
-Diabetic Supplies	-Rogaine	-Life Insurance, Long-Term Care, or Disability Income Insurance
-Eye Exams	-Routine Physicals	-Marriage Counseling
-First Aid Supplies	-Seeing-Eye Dog	-Massage Therapy
-Gynecologists' Fees	-Skilled Nurses' Fees	-Physical Therapy Treatments
-Health/Dental/Vision Insurance Deductibles and Co-Pays	-Smoking Cessation Program	-Scientology Fees
-Hearing Aids/Batteries	-Special Education for the Handicapped	-Sonicare Toothbrushes
-Infertility Treatments	-Speech Therapists' Fees	-Tattooing, or Tattoo Removal
-Laboratory Fees	-Sterilization Fees	-Toilet Articles
-Laser Eye Surgery	-TMJ Related Treatments	-Transportation Exp.to/from Work
-Mileage Related Specifically to Eligible Medical Visit	-Therapy Treatments	-Travel Your Doctor Recommended for Rest or a Change
-Nutrition Counseling	-Treatment/Substance Abuse	-Vitamins/Nutritional Supplements
-Obstetrical fees	-Wheelchair	-Weight Loss Treatments and Prescriptions
	-X-Rays	

*After December 31, 2010, you will need a Doctor prescription to be reimbursed for OTC medication.

To request reimbursement for over-the-counter items, you will need to submit the following:

- Reimbursement form with the date of the purchase
- Name of the item purchased
- Amount paid
- Original cash register receipt

C <u>DEPENDENT CARE SPENDING ACCOUNT</u>

Just like in the Health Care Spending Account, you will need to specify the amount of money you wish to contribute. This money is set aside in the Dependent Care Spending Account. **When you incur an expense that is eligible for reimbursement, you must submit the reimbursement form and proper documentation to the business office.**

If you have enough money in your account, you will be reimbursed for eligible expenses. If the amount of your expenses was more than your account balance, the excess part of your claim will be carried over to the next pay period, to be paid out, as your account balance becomes adequate.

Which dependents are eligible for the dependent care spending account? An eligible person is defined as an individual who qualifies as a dependent for income tax purposes and is:

- Under the age of 13, or physically or mentally unable to care for himself or herself; or
- Your spouse or other dependent (child and/or parent) that is physically or mentally unable to care for himself or herself.

If the care is provided outside your home, the expenses can be reimbursed only if the eligible person regularly spends at least 8 hours a day in your home.

What kinds of expenses are eligible for reimbursement? The following types of care are reimbursable from a Dependent Care Spending Account:

- Care provided inside or outside your home by anyone other than: your spouse, a person you list as your dependent for income tax purposes, or one of your children under age 19.
- Cost of **care** for school-age children through age 12. This includes nursery school expenses. Educational expenses for a child in kindergarten or higher are not considered expenses for care.
- A dependent care center or child care center (if the center cares for more than six children, it must comply with all applicable state and local regulations).
- A housekeeper, au pair, or nanny whose services include in part, providing care for a qualifying dependent.
- Day care costs while in day camps
- FICA and FUTA taxes
- Pre-school or nursery school

What kinds of expenses are <u>not</u> eligible under the dependent care spending account?

- Babysitting for social events
- Educational expenses for a child in kindergarten or higher are not considered expenses for care.
- Charges for overnight camp
- Transportation expenses
- Food expenses
- Expenses that you might take as a child care tax credit on your tax return.

How much can you contribute to the dependent care spending account? The Internal Revenue Service places limits on the amount of money that can be paid to you in a calendar year from your Dependent Care Spending Account. Generally, your contributions may not exceed the lesser of:

- $5,000 (if you are married filing a joint return or you are head of a household) or $2,500 (if you are married filing separate returns);
- your taxable income; or
- your spouse's income

<u>THINGS TO CONSIDER</u>

Before making your election, consider the following questions. They will help you make your decision.

- How much have I spent for myself and my dependents on out-of-pocket medically related expenses in the past 12 months?
- How much will I spend for ongoing medical expenses next year?
- Am I better off having dependent care expenses paid through the Dependent Care Spending Account or taking the child care tax credit?
- Does my spouse also contribute to a Dependent Care Spending Account? The maximum amount any one family can contribute during a calendar year is $5,000.
- Do I understand that I cannot take a federal income tax deduction for expenses I am reimbursed for from my Dependent Care Spending Account?

Be conservative in estimating your plan year contribution. You may not claim any other tax deduction under this plan, although the balance of your eligible dependent care expenses may be eligible for the dependent care tax credit. The Dependent Care Spending Account is generally more advantageous than taking a federal tax deduction if you fall into general annual salary categories based on how you file your federal income tax and your adjusted gross income.

What are the legal requirements of the plan?

- **Binding Contribution:** When a participant signs up to make a contribution, the amount decided upon is "locked in" unless they incur a "**change in status**". (See below)

- **Use-it or Lose-it Rule:** Regulations require that money not used by the end of the plan year must be ***<u>forfeited</u>*****.** There is a three month grace period for turning in your receipts.

- **Advance Reimbursement:** This rule applies only to the Health Care Spending Account and allows a participant to be reimbursed up to the maximum of their plan year election prior to their full year contribution.

Can I change my election during the plan year? Generally, no. You may not change your contribution during the plan year, unless you have an IRS "change in status," and the change in your contribution is "due to and on account of" the change in status. The IRS defines a change in status as:

- **Change in employee's legal marital status** – including marriage, divorce, and death of spouse, legal separation, and annulment.

- **Change in number of dependents** – including birth, adoption, and death.

- **Change in employment status** – Any of the following events that change the employment status of the employee, the employee's spouse, or the employee's dependent qualify: a termination or commencement of employment; a strike or lockout; a commencement of or return from an unpaid leave of absence; and a change in worksite.

- **Dependent satisfies (or ceases to satisfy) dependent eligibility requirements** – an event that causes the dependent to satisfy/cease to satisfy the requirements for coverage due to attainment of age, gain/loss of student status, marriage, or similar circumstances.

- **Residence change –** a change in the place of residence of an employee, spouse, or dependent (if the residence change affects the employee's eligibility for coverage).

You can also change your contribution to the dependent care account during the plan year in the following situations:

- When the dependent ceases to qualify as a dependent (i.e., the child reaches age 13);
- When the employee switches to a new dependent care provider; and,
- When the cost of the dependent care expense increases or decreases. However, mid-year change due to cost is not allowed where the dependent care provider is a relative of the employee.

If a change in status occurs, you must inform your employer of your new election within 30 days of the occurrence.

<u>THE FLEXIBLE SPENDING ACCOUNT PLAN IS REALLY AS EASY AS *1-2-3*.</u>

1	Payroll will deposit a portion of each paycheck into a bank account.	2	When you have an expense, fill out and send a Reimbursement Form to the business office.	3	The business office will process your claim and send you a Tax-Free Check.

How do I submit a reimbursement form? Submit your eligible **Medical** expenses at any time. Once your reimbursement form and documentation are received, you will be sent a tax-free payment. If you submit a claim under the Health Care Spending Account, you will receive the full amount of the eligible expense without regard to the amount you have contributed.

When you incur a **Dependent Care** expense that is eligible for reimbursement, you must submit the reimbursement form and proper documentation to the business office. If you have enough money in your account, you will be reimbursed for eligible expenses. If the amount of your expenses was more than your account balance, the excess part of your claim will be carried over to the next pay period.