

FLEXIBLE SPENDING ACCOUNT

What Are Flexible Spending Accounts?

Flexible Spending Accounts are a provision of the Section 125 tax law that allows you to deposit a portion of your gross income tax free into a spending account which is used to pay for out of pocket medical, dental, and vision expenses (expenses not covered by any insurance plan) as well as daycare expenses. By using pre-tax dollars, you save 25% to 40% on dependent care, medical services, and medical supplies that you would normally have paid for with after-tax funds.

Why Should I Use a Flexible Spending Account?

Think of your pre-tax spending account as a savings account that you contribute to on a pre-tax basis which will reimburse you for your family's out-of-pocket medical, dental, vision and/or daycare expenses. Each pay period, you allocate a pre-determined sum of your gross income to deposit into your spending account. When you have an out of pocket expense, you will fill out a Request For Reimbursement form and you will receive a check from your pre-tax account. There are two types of accounts available: The Unreimbursed Medical Account and the Dependent Care Spending Account.



Possible Savings Using Flex Accounts

	<u><i>With Flex Accounts</i></u>	<u><i>W/O Flex Accounts</i></u>
Annual Gross Income	\$25,000.00	\$25,000.00
Medical Account Contribution	(1,200.00)	0.00
Day Care Contribution	(5,000.00)	0.00
Taxable Income	18,800.00	25,000.00
Estimated Taxes (25%)	(4,700.00)	(6,250.00)
Out of Pocket Medical	0.00	(1,200.00)
Dependent Care	0.00	(5,000.00)
Net Disposable Income	\$14,100.00	\$12,550.00

Medical Reimbursement Account

- Designed to pay for expenses such as; deductibles, co-payment, dental expenses, orthodontics, vision care such as eye exams, glasses, contacts or contact supplies, hearing care, prescription drugs and other related expenses not covered by any benefit plan. You may also be reimbursed for over the counter medications.
- The account is open to your spouse and dependents regardless of whether they are covered by any other benefits offered by your employer.



Dependent Care Spending Account

- You may be reimbursed up to \$5,000 of daycare or dependent care expenses each plan year.
- Qualifying dependents are children under the age of 13, a disabled spouse or other dependents who are physically or mentally incapable of self-care.
- ***Both you and your spouse must work***, one of you works and the other attends school full-time; or you're a single parent.
- You cannot take a tax deduction for the amount of your annual election when you file your income tax.

HOW DO FLEXIBLE SPENDING ACCOUNTS WORK?

During the enrollment period each year, you estimate what your out of pocket medical, dental, vision, and/or dependent care expenses will be for the coming year. ***Spending account deductions do not rollover from year to year; you must re-enroll every year.*** The total of those expenses is divided by the number of pay periods during the plan year. That amount will be deducted from your gross pay each pay period (tax free) and deposited into your spending account. When you have an expense, fill out a Request For Reimbursement form and attach the Explanation of Benefits from all insurance companies. If you have no insurance coverage attach your statement from the service provider and receipts, mail the form to Ben-e-lect and you will receive a check.

You will also plan your daycare expenses for the coming year and divide that amount by the number of pay periods in the year. That amount will be deducted pre-tax from your paycheck. When you incur a dependent care expense, fill out a Request For Reimbursement form, attach the bill or receipt from your daycare provider, mail the form to Ben-e-lect and a check will be mailed to you. You will only be reimbursed up to the amount in your Dependent Care Spending Account. Any reimbursement request beyond your current balance will not be paid until further contributions are received.

SPECIAL RULES

There are two rules which apply to the flexible spending accounts. First is the ***use-it-or-lose-it rule***. Under this rule any unused amounts in your account at the end of the plan year are forfeited to your company. You cannot convert this money to cash or roll it over the next plan year. You may submit claims from the current plan year through your grace period. Terminated employees may continue to submit claims to the plan for covered expenses incurred during their employment. This rule means you must be very careful when estimating the amount of money you allocate to your spending account. Only allocate funds you know you will spend.

The second rule is the ***status change rule***. Once you submit your enrollment form with your payroll deduction amount, you can only change this amount if you have a ***change in status***. Other than a change in status, you will only be allowed to change your election during the yearly open enrollment period. See the tables below for a sample list of change in status events. If you waive participation, you can only come in to the plan if you experience a family status change.

Medical Spending Account Change in Status Events

- Change in employee's legal marital status
- Change in number of tax dependents
- Termination or commencement of employment by the employee, spouse or dependent
- Change in work schedule
- Dependent satisfies (or ceases to satisfy) dependent eligibility requirements

Dependent Care Spending Account Change in Status Events

- Marriage, divorce, or death of spouse
- Birth, adoption, or death of a child
- Employment or termination of spouse
- An unpaid leave of absence for either the employee or the spouse
- The employee or spouse changes from part-time to full-time or full-time to part-time
- The rate charged by your care provider changes

EXPENSES MUST BE INCURRED DURING THE CURRENT PLAN YEAR OR IT'S GRACE PERIOD

Any expenses submitted for reimbursement in either the medical or dependent care spending account must be incurred during the current plan year or it's grace period, and while enrolled in the program. 'Incurred' is the date the service was received, not the date you were billed, charged, or paid for the service. For example, if your employer's plan year starts January 1st, but you do not enroll until February 1st, you may not submit claims for charges incurred during the month of January. Also, if you terminate participation in the plan because of a status change on June 1st, you may not be reimbursed for expenses incurred after June 1st. If at the end of the plan year you still have funds in your account, you may submit claims for expenses incurred during your **grace period**, which is the 2 1/2 month period following the end of your plan year. For example, if your employer's plan year ends December 31, your grace period is from January 1 – March 15. If you have funds remaining in your account at December 31, you will have until March 15 to incur expenses that may be submitted for reimbursement to use your remaining funds.

TERMINATIONS AND LEAVES OF ABSENCE

In the event that your employment is terminated, voluntarily or involuntarily, you may continue making contributions into your medical spending account by participating in COBRA. This will allow you to continue filing claims against your account even after being terminated. If you do not continue your coverage on the COBRA program, you will only be able to file claims for expenses incurred before your termination date.

If you take a leave of absence during the year, you may continue to make contributions to your medical spending account while on leave, or you may cease making contributions. However, if you cease to make contributions you will not be able to file claims for charges incurred during your leave.

REQUESTING A REIMBURSEMENT

In order to receive a reimbursement from your spending account or accounts, you must complete a Claim for Reimbursement Voucher. You cannot request a reimbursement for a period that begins in one plan year and ends in the next plan year. You will need to submit two reimbursement vouchers; one for each plan year. See account Rules and Claims Filing Instructions on the back of the Request for Reimbursement Voucher. Failure to provide proper substantiation will result in a delay in reimbursement.

MEDICAL ACCOUNT

1. Complete name, address, social security number and name of employer at the top of the form.
2. Itemize each expense in the applicable reimbursement section.
3. To substantiate your request for reimbursement, you must attach the Explanation of Benefits (EOB) from your insurance carrier(s). If you are insured under a Ben-e-lect self-funded plan, you must attach your Ben-e-lect EOB. If the service you received is not covered by insurance, you must submit a billing from the provider of service. The billing must include the patient's name, date of service, a description of the service and the total cost for the service. **Cancelled checks or charge card receipts are not acceptable.**
4. Sign and date your Claim for Reimbursement Voucher and mail to Ben-e-lect. Please read the statement above your signature carefully before submitting your request for reimbursements.

DEPENDENT CARE ACCOUNT

1. Complete name, address, social security number and name of employer at the top of the form.
2. Itemize each expense in the applicable reimbursement section. You must include your daycare providers Tax ID#.
3. To substantiate your request for reimbursement, you must attach the billing or receipt from your daycare provider. The billing or receipt must include the dependent's name, date of service, a description of the service and the total cost of for the service. **Cancelled checks or charge card receipts are not acceptable.**
4. Sign and date your Claim for Reimbursement Voucher and mail to Ben-e-lect. Please read the statement above your signature carefully before submitting your request for reimbursements.

SAMPLE OF ELIGIBLE AND INELIGIBLE UNREIMBURSED MEDICAL EXPENSES

Medial Care expenses are defined as amounts paid for the diagnosis, cure, treatment or prevention of disease. Medical expenses do not include expenses that merely maintain general health or improve general appearance.

ELIGIBLE EXPENSES

- Acupuncture
- Alcoholism treatment
- Ambulance
- Chiropractor
- Co-insurance and deductibles
- Contact lenses, equipment & material
- Contraceptives
- Dental treatment
- Dentures
- Diabetic supplies
- Drug abuse treatment
- Eye exams, eyeglasses, equipment & materials
- Fertility treatments (some restrictions apply)
- First aid kits and supplies
- Flu shots
- Hearing aids
- Hospital services
- Immunizations
- Insulin
- Lab fees
- Laser eye surgery; Lasik
- Medical monitoring & testing devices
- Medical practitioner fees
- Over the counter medicines
- Orthodontia
- Physical therapy
- Pregnancy test kits
- Prescription drugs and medications
- Prosthesis
- Psychiatric care
- Stop smoking programs
- Sterilization procedures
- Surgical fees
- Weight loss programs if recommended by a physician to treat an existing disease.

INELIGIBLE EXPENSES

- Cosmetics
- Diet foods
- Insurance Premiums
- Late fees, finance charges
- Long term care services
- Marriage counseling
- Missed appointment fees
- Prescription drugs and medicines purchased from other countries.
- Teeth whitening
- Alternative healers, unless treatment is provided to treat a specific medical condition.
- Psychologist, counseling, and therapy, unless the expense is for medical care and not just for general improvement of mental health or relief of stress.
- Cosmetic procedures, unless the procedure is necessary to improve a deformity arising from a congenital abnormality, personal injury from accident or trauma, or disfiguring disease.
- Psychoanalysis, unless provided for medical care, and not just for the general improvement of mental health, stress relief, nor if the expense stems from training to be a psychoanalyst.
- Massage therapy, unless recommended by a physician to treat a specific injury or trauma.
- Vitamins, herbs, or food supplements, unless recommended by a physician to treat a specific medical condition.

SAMPLE OF ELIGIBLE AND INELIGIBLE DEPENDENT CARE EXPENSES

Expenses for reimbursement under the DCAP must for 'employment-related expenses' to enable the *employee and the employee's spouse* to be gainfully employed. Expenses must be for the care of the qualified individual to ensure their well-being and protection.

ELIGIBLE EXPENSES

- Babysitters (restrictions apply, see below)
- Before and after school programs
- Child care centers
- Day camp, summer day camp
- Dependent care centers
- Home care by governess, au pair, or nanny
- Nursery school
- Pre-school
- Housekeeper – when duties include caring for a qualifying individual
- Late pick-up fees
- Transportation expenses provided by the dependent care provider to and from dependent care location

** Babysitters cannot be (1) the employee's child, stepchild, or eligible foster child under 19 at the close of the taxable year; (2) a qualifying child or relative of the employee or the employee's spouse; (3) the employee's spouse; or (4) the parent (who is not the employee's spouse) of the employee's qualifying child under age 13.

INELIGIBLE EXPENSES

- Educational expenses (i.e. kindergarten)
- Overnight camp
- Expenses which are claimed with the Dependent Care Tax Credit.
- Food – if charged separately from dependent care expenses.
- Incidental expenses – if charged separately from dependent care expenses.
- Recreation expenses – if charged separately from dependent care expenses.
- Tuition expenses - to the extent that they are for education.

This list is not exhaustive. For more information, please contact Cheryl Shade at Ben-e-lect, (559) 733-1240 x2350.