

Flexible Spending Accounts Fact Sheet (page 1 of 2)

How it works...

You can save money in taxes for out-of-pocket health care and dependent day care expenses by using flexible spending accounts. Authorized by the IRS, these accounts let you set aside money from your pay before taxes are withheld and be reimbursed for eligible expenses with tax-free dollars from your account(s). The Health Care Account reimburses health care expenses not otherwise covered. The Dependent Care Account reimburses dependent day care expenses incurred to allow you (or you and your spouse) to work. When you use these accounts, you reduce your taxable income, so you will pay less in income taxes. You may use the Health Care or the Dependent Care Account, or both, or neither.

You estimate the amount you will spend on eligible expenses during the coming year.

Use the enclosed worksheets for help.

You decide how much to deposit.

Each account is separate, and money cannot be transferred from one account to the other.

The deposits come out of your paycheck in equal amounts each pay period. When you have an eligible expense, you pay it.

You are reimbursed for out-of-pocket health care expenses with the money you deposited in your Health Care Account. You are reimbursed for eligible dependent care expenses with the money deposited into your Dependent Care Account.

Filing claims...

FACT: *According to IRS rules, any funds left in your account(s) at the end of the year cannot be returned to you.*

Whenever you have an eligible expense, submit a claim along with a copy of the bill. You cannot file until you have accumulated \$40 or more in claims to file in an account. However, the last claim you file for the year can be for any amount, even if it is smaller than the minimum. You can also submit claims after the end of the year for eligible expenses you had during the year. The deadline for this is April 1 of the next year.

With the Health Care Account, you can be reimbursed up to the total amount of your annual deposit—even before that amount has accumulated in your account. You will be reimbursed for no more than the balance in your account for the Dependent Care Account. You should still claim the full amount of the expense you paid, and you will be reimbursed

for the balance in your account if the claim exceeds this amount. The difference will be reimbursed as it accumulates.

You may file a claim only after a service has been rendered. For example, you may not pay a dependent day care bill in advance and be paid back from your account. Also, you cannot claim money from one account to cover expenses you should file with the other account.

FACT: *Claim reimbursements are processed once a month.*

Account changes...

When you enroll in the flexible spending accounts, you decide how much money you want to deposit in them for the year. Generally, you cannot change the amounts until the next annual enrollment period. According to the IRS, you can change your deposit amounts during the year only if you have certain changes in your family situation:

You marry or divorce

You have or adopt a child

Your spouse or child dies

You lose your job

Your spouse becomes eligible for group medical coverage

Your spouse starts or stops working full time

You will need to request any change in the amount of your deposit within 31 days of the change in your family situation.

You will need to plan carefully if you decide to use one or both of the spending accounts. Keep in mind that the accounts are for predictable expenses, such as routine exams.

The Health Care Account Worksheet can help you decide how much to deposit in that account for the coming year. The Dependent Care Tax Worksheet can help you decide whether the Dependent Care Account will provide more of an advantage to you than the federal dependent care tax credit.

FACT: *Changes to your deduction amount during the year, are allowed for the above mentioned circumstances ONLY.*

The Health Care Account...

The minimum annual deposit for the Health Care Account is \$300. In addition to claiming out-of-pocket expenses for your own medical care, you can claim expenses for your eligible dependents.

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Dependents eligible for reimbursement...

- Your spouse
- Your dependent children
- Any other person considered an eligible dependent for federal income tax purposes, such as an elderly parent

You can use Health Care Account to pay...

Eligible expenses generally include health care expenses that are not covered, or only partly covered, by your health care plan—or if you are married, by your spouse's health care plan. The following list shows some of the expenses you can claim:

- Deductibles and co-payments under any medical, dental, and prescription drug plans
- Expenses for medical services or supplies not covered by your plans (for example, many plans do not cover routine physicals or well-child care)
- Vision care expenses, including eye exams, frames, lenses, contact lenses, and contact lens insurance
- Hearing care expenses, including hearing exams and hearing aids
- Expenses that are in excess of medical plan or dental plan limits
- Transportation expenses related to medical care
- Nursing services
- Wheelchairs and crutches
- Removal of lead-based paint
- Capital expenses for a personal residence to accommodate a disabled condition
- Any other health care expense you could deduct on your federal income tax return

Some ineligible expenses...

The following list shows some examples of expenses not eligible for reimbursement through the Health Care Account. If you have questions about eligibility of expenses, please call us at Administrative Resources.

- Cosmetic surgery
- A weight loss program, even at your doctor's advice
- Health club dues
- Electrolysis
- After-tax premiums for another health plan
- Health care aids that can be purchased without a prescription, such as aspirin or toothbrushes

The Dependent Care Account...

Dependent care must be necessary for you and your spouse to work—or in order for your spouse to attend school full-time.

Dependents eligible for reimbursement...

- Children under age 13
- Your spouse, or any other person who is dependent for federal income tax purposes

Dependents ineligible For reimbursement...

- An elderly parent whom you help support but do not claim on your tax return
- Children you help support but don't claim on tax returns

You can use Dependent Care Account to pay...

- A child care or adult care center that complies with state and local regulations
- A nursery school or summer day camp
- Dependent care duties performed by a housekeeper
- Caregiver for an elderly or incapacitated dependent
- A relative who cares for your dependents, if he or she is age 19 or older and not one of your dependents
- A babysitter (either inside or outside your home)

If care is provided outside your home, dependents must spend at least eight hours each day in your home. You must report the care giver's Social Security number or the day care center's taxpayer ID number on your tax return. The annual deposit will be reported on your W-2 form.

Some ineligible expenses...

- Babysitting that is not work related
- Overnight camp
- School costs for the first grade or higher
- Most long-term nursing home care

The total deposit cannot be greater than your income or your spouse's income, whichever is lower. If you earn \$9,000 and your spouse earns \$4,000, for example, \$4,000 is the maximum deposit. If your spouse has no income, you cannot use this account (unless s/he is disabled or a fulltime student.) If you and your spouse have Dependent Care Accounts, combined deposits cannot be greater than \$5,000—\$2,500 each if filing separately. A spouse who is disabled or a full time student is assumed to earn \$200 a month—\$400 if you claim two or more dependents. Maximum contribution is \$2,400 for one dependent and \$4,800 for two or more.