



FLEXIBLE SPENDING ACCOUNTS

Since January 1, 1993, employees eligible for group insurance benefits have enjoyed two tax-saving benefit programs called Healthcare and Dependent Care Flexible Spending Accounts.

These two programs are designed to let you save taxes on the money you pay out of your own pocket for health care and dependent care expenses. As you will see in this information, the tax savings can really add up. Because tax savings can be substantial, the Internal Revenue Service requires the University to follow some rules about participating in the Accounts, and the rules may seem a little intimidating. However, most of the rules are simply intended to make you plan carefully ahead of time.

Most of us are willing to spend a great deal of time to save money on expenses, like clipping coupons for grocery shopping, competitively shopping for a car or a home mortgage and looking for sales on appliances and clothing. The Flexible Spending Accounts are the same - if you are willing to plan ahead and learn the rules, the tax savings can make it well worth your while.

Be sure to carefully read all of this information.

TYPES OF FLEXIBLE SPENDING ACCOUNTS

Most employees pay some health care expenses out of their pockets each year that are not covered by the University medical, dental or vision plans or their spouse's health care coverage. Many employees also have dependent care expenses so they can work. These expenses are normally paid out of your paycheck after income taxes have been withheld. This means you have already paid income taxes on the money you use to pay those expenses. The Health Care Flexible Spending Account (HCFSA) and Dependent Care Flexible Spending Account (DCFSA) offer you a way to pay those expenses, but save the taxes.

How Flexible Spending Accounts Work

For the HCFSA:

- You make tax-free deposits through payroll deduction. The taxes you would have paid on that money stay in your paycheck.
- When you have an eligible bill (for example, a bill for an eye exam and contact lenses in excess of what is covered by your vision plan), you are able to access the funds in your account in three different ways.
 1. Use the FlexSave debit card to pay for the services
 2. Pay for the expenses out of pocket and then submit a claim form to FlexSave to receive reimbursement.
 3. Use the on-line bill payment system available at: <http://www.mytakecareplan.com/homeframes.html>

For the DCFSA

- You make tax-free deposits through payroll deduction. The taxes you would have paid on that money stay in your paycheck.
- When you have an eligible bill (for example, a bill for childcare expenses), you are able to access the funds in your account in two different ways.
 1. Pay for the expenses out of pocket and then submit a claim form to FlexSave to receive reimbursement.
 2. Use the on-line bill payment system available at: <http://www.mytakecareplan.com/homeframes.html>

Your Contributions

You may enroll in either or both of the Accounts and you decide how much to contribute to each Account. Deposits to the Flexible Spending Accounts will be deducted in equal payments each month in which you receive your base pay. You can deposit any amount from a minimum of \$120 and up to a maximum of \$5,000 per year (\$10 and \$416 a month if you are paid over 12 months) in the HCFSA.

Most employees can deposit between a minimum of \$120 and up to a maximum of \$5,000 per year (\$10 and \$416 a month if you are paid over 12 months) in the DCFSA. However, your maximum contribution will be less if either of the following IRS restrictions apply to you:

- If you are married and file separate income tax returns, you may deposit only up to \$2,500 per year (\$208 a month) in the DCFSA.

- Your annual DCFSA deposit cannot be greater than your annual income or that of your spouse, whichever is lower. If your spouse is a full-time student, and you have one qualifying dependent, your spouse's annual income is assumed to be \$200 times the number of months he or she is in school. If you have more than one qualifying dependent, your spouse's annual income is assumed to be \$400 times the number of months he or she is in school.

Eligible Expenses

Health Care Flexible Spending Account

Many of the health care expenses that your medical, dental and vision plans do not pay can be reimbursed through the HCFSA. Some eligible expenses under the HCFSA include:

- Deductibles and co-payments under your medical and dental plans;
- Orthodontia expenses;
- Eyeglass and contact lenses expenses in excess of the vision plan coverage; and

This newsletter contains an extensive list of examples of eligible expenses. Keep in mind, only expenses that have not been paid by your medical, dental or vision plan, or any other medical, dental or vision plan, are eligible under the HCFSA.

Dependent Care Flexible Spending Account

The DCFSA reimburses you for the care of your eligible dependents that allow you, and your spouse, if you are married, to work or attend school full-time. An eligible dependent is a child under age 13. Older dependents, such as a spouse, parent, or older child, are also eligible if they are physically or mentally incapable of caring for themselves, reside in your home at least eight hours per day, and are claimed as your dependents for income tax purposes.

Examples of eligible expenses under the DCFSA include:

- Day Care;
- After-School Care; and
- Home Health Worker.

Services may be provided in or out of your home (but not in a nursing home) by someone who is not your dependent for income tax purposes. Day care centers caring for six or more children must be licensed. In order to receive tax-free Flexible Spending, the federal government requires you to provide the Tax Identification Number (TIN) of your dependent care provider. The TIN for an individual is his or her Social Security Number.

TAX ADVANTAGE

Like the pre-tax medical contributions, your contributions to the HCFSA and DCFSA are deducted from your paycheck before any federal or state income taxes or Medicare contributions are withheld. That means the money is tax-free when you put it into the Accounts, and it remains tax-free when you are reimbursed. You never pay taxes on the money (except for local taxes).

The tax savings offered by the HCFSA and DCFSA can be significant, even if you have a small number of eligible expenses. Let's look at an example:

Assume you decide to go ahead with the dental work your dentist has recommended for your son and the portion of the expenses that you will have to pay during any given year for a total \$1,000. By depositing that money in the HCFSA, you could save \$250, assuming combined federal and state income taxes and Medicare contributions of 25%. If you were in a 35% combined income tax bracket, your total savings would increase to \$350.

Now, let's look at an example where the tax savings can be even greater:

Assume you are married, and you and your spouse both work full-time. Your day care expenses for your child total \$2,500 a year. If you are in a 25% combined tax bracket, you can pay the \$2,500 through the DCFSA and save about \$625 a year in taxes. That stays in your pocket. If you were in a 35% combined tax bracket, your savings would increase to about \$875.

DCFSA vs. Federal Childcare Tax Credit

The federal government offers a tax credit on the same types of dependent care expenses that are reimbursed through the DCFSA. You cannot claim the same expenses under the Federal Childcare Tax Credit that you have already received Flexible Spending for under the DCFSA. In fact, any Flexible Spending you receive from the DCFSA reduces, dollar for dollar, the amount of tax credit that is available to you. For most employees, that means you will have to choose either the DCFSA or the tax credit. You may wish to discuss which method works best for you with your own personal tax advisor. In general, most employees with total household adjusted gross incomes greater than \$28,000 will benefit more from using the DCFSA. Employees with total household adjusted gross incomes of less than \$20,000 will benefit more from the tax credit. If your total household income is between \$20,000 and \$28,000 you should consult a tax advisor.

SOME IMPORTANT RULES

In exchange for the tax savings offered by the Flexible Spending Accounts, the Internal Revenue Service imposes some important rules:

- The amount you elect to deposit in each of the Flexible Spending Accounts stays in effect for the entire plan year. **No changes can be made except under limited circumstances.** HCFSA deposits and DCFSA deposits can be increased, decreased or stopped, but only if you have an eligible change in family or work status. Changes in family and work status may include events like a marriage, divorce, birth or adoption of a child, loss of a dependent or a change in your spouse's employment status and must be communicated within 31 days of the event or no changes can be made.
- The amount you deposit in the HCFSA and/or DCFSA during the plan year can be used only for expenses incurred during the eligibility period. An expense is "incurred" when the service is provided, not when you are billed or when you pay for it. The eligibility period for plan year begins January 1 of each year thru March 15 of each year. **You have until May 31, of that same year to submit all of your claims.**
- **The IRS requires that you forfeit any money left in your Accounts.** The money cannot be returned to you or carried over to the next plan year. Any forfeited amounts will be used to offset the administrative cost of the plan.
- Like most tax-qualified plans, Flexible Spending Accounts are subject to certain nondiscrimination tests that may require you to reduce your deposit. If you are affected, you will be notified.

These rules show how important it is for you to plan carefully. Only deposit enough money in the Accounts to cover expenses you are sure you will have during your enrollment year. The worksheets included in this information will help you calculate your likely expenses for the year.

But, keep in mind, even if you forfeit a small amount of money, the tax savings may more than make up for your loss.

A FINAL WORD

- The Health Care Flexible Spending Account and the Dependent Care Flexible Spending Account are excellent ways to set aside money for your vision, dental and medical expenses or dependent care expenses and save taxes at the same time.
- However, if you do not use the money in your account(s) during the Plan year, IRS regulations require that you forfeit any money left unused in your account.
- Be sure and ask any questions you have about the Flexible Spending Accounts at your employee meeting. You can also call Benefits with questions at 330-672-3107.

HEALTH CARE FLEXIBLE SPENDING ACCOUNT WORKSHEET

Items to Consider in Calculating Your HCFSA Deposits

Estimated eligible expenses that will be incurred between January 1 and March 15 of your enrollment year

1. Deductibles (if you expect to meet them) under your medical and dental plans and/or other medical or dental plans \$ _____
 2. Co-insurance payments (your share under your medical and dental plans and/or other medical or dental plans) \$ _____
 3. Vision expenses (exams, glasses and contact lenses) in excess of what your vision plan covers \$ _____
 4. Other Eligible expenses not eligible for coverage under any medical, dental or vision plan \$ _____
- STEP 1:** Total your estimated expenses for Jan. 1 through Mar. 15 \$ _____
- STEP 2:** To compute your monthly deposit, divide the total expenses in STEP 1 by 12. Enter here.** \$ _____

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT WORKSHEET

Calculating Your DCFSA Deposits

Estimated eligible expenses that will be incurred between January 1 and March 15 of your enrollment year.

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| 1. Day Care Center | \$ _____ |
| 2. After-School Care | \$ _____ |
| 3. Home Health Worker | \$ _____ |
| 4. Other Eligible Expenses | \$ _____ |
| STEP 1: Total your estimated expenses for
Jan. 1 through March 15 | \$ _____ |
| STEP 2: To compute your monthly deposit,
divide the total expenses in STEP
1 by 12. Enter here.** | \$ _____ |