
Flexible Spending Accounts

A Flexible Spending Account (FSA) allows you to pay for certain medical and dependent day care expenses with tax-free dollars. The Internal Revenue Service does not consider any money you put into a Medical or Dependent Care FSA part of your taxable pay. The amount your take-home pay is increased by participating in the Medical or Dependent Care FSA depends on the amount you elect to put into the account(s) and your tax bracket. The university's FSA plan operates on a fiscal year (July 1 through the following June 30), NOT a calendar year. Please consider this when deciding how much to put into your account.

Example

Susan knows her family will most likely have \$1,700 of out-of-pocket health care expenses (deductibles, coinsurance, pharmacy co-pays, orthodontics, etc). In addition, Susan will have dependent day care expenses of \$400 per month, or \$4,800 through June 30. Detailed below is a comparison of Susan's take-home pay with and without the effect of the Medical and Dependent Care FSA.

	<u>Without Either FSA</u>	<u>With Both FSA Plans</u>
Susan's Earnings through June 30	\$27,830	\$27,830
Less Medical Expense	0	1,700
Less Day Care Expense	<u>0</u>	<u>4,800</u>
Taxable Income	\$27,830	\$21,330
Less Federal Taxes (28%)	7,792	5,972
Less Medical Expense	1,700	0
Less Day Care Expense	<u>4,800</u>	<u>0</u>
Take-home pay	\$13,538	\$15,358

Susan's Increase in take-home pay = \$1,820

By using both a medical and dependent day care FSA, Susan's personal tax liability is decreased by almost \$152 per month. Of course, your personal situation will be different. This example is for illustrative purposes only and shows the maximum effect of electing both types of FSA.

Dependent Care FSA vs. Tax Credit

Before you enroll in the Dependent Care FSA, you should be aware that you may be eligible to receive a tax credit when you file your federal income taxes if you do not participate in the plan.

In general, if your annual family income is over \$24,000, a Dependent Care FSA may be more beneficial for you. **The benefits you realize from the Dependent Care FSA will vary based on your individual circumstances (i.e., your income, your marital status, your expenses and the number of your dependents).** For further information on this option, please consult your tax advisor.

Eligible Expenses

The IRS regulates the type of expenses that are eligible for reimbursement from the Medical and Dependent Care FSA as well as participation requirements.

Medical Flexible Spending Account

The University of Alaska limits the amount you can contribute to the Medical FSA to \$5,000 for the plan year (July 1 through June 30).

The following is a list of IRS requirements for participation in the Medical FSA:

- Eligible expenses are incurred by you, and your eligible dependents, for services which are medically necessary for the diagnosis, cure, treatment or prevention of disease.
- Examples of eligible expenses include, but are not limited to, deductibles, coinsurance (your 20% or 40% share of claim costs), amounts over usual and customary, pharmacy co-pays, dental coinsurance, LASIK eye surgery, and amounts over plan maximums, etc.
- Some over-the-counter medications, such as antacids, pain relief, cold remedies and allergy medications are eligible expenses for the Medical FSA. See below for more information.

- Reimbursement can only be made for eligible expenses provided during your period of coverage. Your period of coverage for the plan year is from your plan effective date (July 1 if elected at open enrollment) through your date of termination in the plan, termination of employment or June 30, whichever occurs first.
- Expenses are treated as having been incurred when the medical care is given, not the date you are billed or charged, or the date you paid for the services.
- The expense must be ineligible for payment (in whole or part) by any other medical plan provider.
- You cannot claim the same expenses for tax purposes.

How to estimate your out-of-pocket medical expenses for the Plan Year:

- Be sure to include your deductibles and co-insurance amounts for your medical and dental services.
- If you have predictable expenses for prescribed medications, eligible over-the-counter medications, contact lens solutions, chiropractic visits or other routine care, add the amount not covered by insurance to the total.
- Review your prior year's medical history for ideas of health care expenses you have had.

The goal amount you elect will be divided by the number of pay periods you will have during the plan year (maximum of 19 for a regular nine-month employee or 26 for a regular 12-month employee), based on your primary job. When you receive your first pay check of the plan year, please verify that the amount deducted is correct for the amount you elected. If it is not, contact your local human resources office immediately.

To be eligible for reimbursement, some treatments such as acupuncture and massage therapy require that you submit a written statement from your healthcare provider that verifies the medical need. A diagnosis is not required; however the statement must indicate that the treatment is provided to treat a specific medical condition, not merely to improve the patient's health. Fringe Benefits Management Company (FBMC) can provide you with a letter of explanation (Medical Need) to take to your medical provider for completion. Call FBMC Customer Service at 1-800-342-8017, from 4 AM to 6 PM Alaska Time.

Recent IRS rulings have expanded the use of the Medical FSA to include certain over-the-counter antacids, pain relief, cold and allergy medications. Fringe Benefits Management Company maintains a list of over-the-counter medications eligible for reimbursement. It is your responsibility to check the list regularly for updates at www.fbmc-benefits.com. As soon as a drug or medicine is added to the list, it will be reimbursable retroactively to the start of the then-current plan year. All claims for over-the-counter medicine expense reimbursement must include a detailed receipt showing the purchase date and name of the medicine.

In general, vitamins and other supplements are not eligible for reimbursement, even if a doctor prescribes them. Certain prescription drugs that are prescribed primarily for cosmetic reasons are not eligible for reimbursement. However, *these drugs may be eligible* for reimbursement if the prescription is to treat a specific medical condition such as heart disease or acne. A letter of Medical Need is required with the first reimbursement claim submission for these items.

Some expenses are not eligible for reimbursement from your Medical FSA:

- Expenses for services primarily for cosmetic purposes
- Insurance premiums, including COBRA payments
- Exercise equipment, even if prescribed by your doctor, for general health purposes
- Claims submitted without a fully completed Medical FSA Reimbursement Form, along with a copy of an explanation of benefits (EOB) from your insurance company, or a provider's billing showing dates of service and charge.

Dependent Care Flexible Spending Account

The IRS regulates the type of expenses that are eligible for reimbursement from a Dependent Care FSA, as well as participation requirements. The following is a list of IRS requirements:

- Eligible expenses are child, adult or elder care costs that allow you and your spouse to work or actively seek work. If your spouse does not work, he or she must be a full-time student or incapable of self-care.
- The maximum contribution to the Dependent Care FSA amount in most cases is \$5,000 for the plan year (July 1 through June 30). However, the following rules may apply to you:

1. If you are single head of household, or married and file a joint tax return, your maximum is \$5,000.
 2. If you are married but file a separate income tax return, your maximum contribution is \$2,500.
 3. If you or your spouse earns less than \$5,000 a year, your maximum contribution is equal to the lower of the two incomes (prorated for the six-month period).
 4. If your spouse is a full-time student or incapable of self-care, your maximum contribution amount is \$2,400 a year for one dependent and \$ 4,800 a year for two or more dependents.
- If the dependent care expense is for a child, he/she must be under the age of 13.
 - Eligible providers include baby-sitters in or outside your home, your relatives age 19 or over who are not claimed as dependents on your tax return, and dependent care facilities. If the dependent care facility cares for seven or more individuals, it must be licensed by the State and comply with all State regulations.
 - Dependent care services must be for the physical care of the dependent, not for education, meals, etc. However, if the expenses are an incidental and inseparable part of the care, the full amount of the expense is considered eligible for reimbursement. For example, if a child is in a nursery school that provides both meals and education, the full expense is eligible. Educational expenses for a child in first grade or higher would not be eligible.

Examples of eligible day care expenses:

Child care center
 Family day care provider
 Pre-school programs
 Adult day care
 Babysitter
 Nursery School
 Home aide
 Summer Day Camp
 Au pair
 Before and After School Programs

Examples of ineligible expenses:

Supplies
 Meals
 Deposits and Registration Fees
 Insurance Fees or Premiums
 Diaper Service
 Activity Fees
 Books and T-shirts
 Transportation Fees
 Overnight Camps
 Educational Tuition

How You Enroll

If you are eligible or will be eligible to participate in the Medical or Dependent Care FSA on July 1, you must complete your enrollment form and return it to your local human resources office during the open enrollment period. If you do not complete the enrollment form during the open enrollment period, you will not be eligible to participate until the next open enrollment period, unless you have a life event. If you become eligible to participate during the plan year as a result of a life event, you must complete and return your enrollment form *within 30 days of your life event*.

You will receive a Confirmation Notice from the Flexible Spending Account Administrator, Fringe Benefits Management Company (FBMC). The Confirmation Notice will provide confirmation of your per payroll and plan year deposit amounts as well as include a Flexible Spending Account Reimbursement Request Form, a Letter of Explanation for Medical Flexible Spending Accounts, and a Direct Deposit enrollment form.

Estimate Expenses Carefully

Once you have determined that the Medical and/or Dependent Care FSA is right for you, you must then estimate your out-of-pocket expenses for your and/or your family’s health care and/or day care services during the July 1 through June 30 plan year. You cannot transfer money from one type of FSA into the other. Be conservative in your estimate because any balance remaining at the end of June will be forfeited. Consider circumstances that may occur that could change the amount you pay for medical care or dependent day care.

In addition to claiming out-of-pocket expenses for your own medical care, you may include expenses for your eligible dependents (i.e., spouse and dependent children). Please remember, however, that the Medical FSA cannot be used for expenses incurred by taxable Financially Interdependent Partners or their children.

Remember, if you contribute more than you use, *federal law requires that the unused amount be forfeited*. But, if your eligible expenses for the year far exceed your contribution to the plan, you will not be taking full advantage of the potential tax savings.

