



## Flexible Spending Account Overview & FAQ

*Set aside tax-free money to help pay your medical and dependent care expenses!*

Flexible Spending Accounts (FSAs), will allow you to save taxes on the money you spend for uncovered medical and dependent care expenses. In general, a FSA allows you to set money aside through payroll deductions before taxes are withheld, and receive the full amount deducted as reimbursement for eligible expenses.

### **What is a Flexible Spending Account (FSA)?**

FSA accounts are sponsored by your employer as an optional employee benefit and are regulated by the IRS . They are designed to help workers and their families pay for health care and/or dependent care by allowing the participant to use tax-free money for certain eligible expenses. Participants make pre-tax contributions by payroll deduction and the contributions are allocated to an account maintained on the participant's behalf by the employer.

How does a FSA work?

Once you have enrolled, the amount you have specified is taken from your paycheck each payroll cycle on a pre-tax basis and deposited in your account . You pay your health care and/or dependent care expenses as usual. You submit a claim form and receipts to CBCA requesting reimbursement for these expenses. CBCA sends you a reimbursement check drawn on funds from your account. The result of paying for eligible expenses through the FSA plan may be lower income taxes and, often, an increase in take-home pay.

### **What are the advantages to contributing to a FSA?**

The advantages of using pre-tax dollars through a FSA program to pay for eligible health care and dependent care expenses can be significant. Depending upon your individual income and tax filing status, you could save as much as 20% to 50% on eligible services. Refer to the example below to see how you can save.

### **Example of Savings**

<i>Family, Spouse Works, Semi-Monthly pay cycles = 24 pay cycles annually</i>	<i>Without Flexible Spending Account</i>	<i>With Flexible Spending Account</i>
Gross Pay (Per Pay Cycle)	\$2,000.00	\$2,000.00
Flex Plan Deduction Medical Expense		\$50.00
Flex Plan Deduction Dependent Care		\$200.00
Adjusted Taxable Amount	\$2,000.00	\$1,750.00
Federal Withholding Tax (28%)	\$560.00	\$490.00
Social Security Tax (7.65%)	\$153.00	\$133.88
<b>NET PAY</b>	\$1,287.00	\$1,126.12
Out-Of-Pocket Medical Expense	\$50.00	0
Out-Of-Pocket Dependent Care	\$200.00	0
Net Take-Home Pay	\$1,037.00	\$1,126.12
<b>Increase in Take-Home Pay:</b>		<b>Monthly @ \$178.24</b>
		<b>Annually @ \$2,138.88</b>

### **Wouldn't I save more by taking a deduction on my income tax?**

According to current tax structure, if your income is greater than \$25,000, in most cases (depending on your filing status, number of dependents, and dependent care expenses) a FSA is more beneficial than the tax credit. Ultimately, you need to determine whether taking tax deductions is more beneficial than using health and/or dependent care flexible spending accounts.

What are the different types of FSAs?

There are two types of accounts: **Health Care Reimbursement Account** and **Dependent Care Reimbursement Account**.

1. **A Health Care Reimbursement Account** can be used to set aside money for anticipated co-payments, deductibles and other eligible health care expenses not covered by your health plan(s).
2. **A Dependent Care Reimbursement Account** can be used to pay for the care of your dependents (e.g. babysitter, pre-school, day care, etc.) so that you or you and your spouse can work.

### **Who is eligible to participate in the FSA program?**

There are two levels of eligibility requirements:

1. Requirements set by the employer sponsoring the program (e.g. full-time employment status)
2. Requirements specific to the type of FSA (e.g. the dependent care account has spousal work requirements)

### ***How do I enroll in the FSA program?***

You will need to make your election for either the Health Care Reimbursement or Dependent Care Reimbursement Account through your employer. You should do this during your initial benefit elections during your new hire orientation period or during your employer's open enrollment period. Just fill out the FSA enrollment form (or the FSA enrollment section of your Benefits enrollment form). Indicate which FSA you are interested in and determine how much your plan year contribution will be.

### ***How much should I contribute?***

How much you contribute depends on your individual situation. Consider last year's medical and/or dependent care expenses, any medical or dental care costs you foresee that might not be covered under your medical or dental plans, and any changes in your family status that might have an impact on your medical/dental or dependent care expenses. You may want to estimate conservatively the first year as any unused funds cannot be refunded. Refer to ***“What happens to funds I don't use?”*** for details.

### ***Are there any limits to how much I can contribute to my FSA?***

The limits are set differently for each type of FSA, and similar to the eligibility requirements, there are two levels which combine to determine contribution limits:

1. Limits set by the employer sponsoring the program. Please refer to your Flexible Spending Account Summary Plan Description (SPD) for these limits.
2. Limits set by the IRS specific to the type of FSA (e.g. the dependent care account has spousal work and income requirements). See the FAQ specific to the account type or IRS publication 503 for details.

### ***What happens to funds I don't use?***

IRS regulations impose a “use it or lose it” rule that requires you to forfeit any money not used by year-end. Money cannot be refunded to you, or carried forward from year to year. So, it is important to carefully estimate qualifying expenses before enrolling. It is also important to note that you cannot use dependent care money to pay for medical costs or vice-versa. Except for unusual events, like a change in family status, once the election is made, it can't be changed. IRS Regulation 2005-42 provided a carry over option beginning with the 2005 Plan year based on Employer discretion.

### ***What happens if I have a claim at the end of the Plan Year and don't submit it by the last day of the Plan Year?***

You will have a grace period after the end of the Plan Year to file claims for services that were provided during the Plan Year. Please refer to your Flexible Spending Account Summary Plan Description (SPD) for details about your grace period.

### ***What happens if I submit a claim and my account balance is less than the amount of the claim?***

For Health Care Account claims, you will be reimbursed up to the full amount of your annual Health Care Account FSA election (less amounts already reimbursed), even if the money has not yet been deposited into your account. Contributions will continue throughout the year and claims will continue to be paid until your annual maximum is met.

Dependent care claims are paid a little differently. These claims will be paid up to the cash balance available in the account. The remaining claim submission will be paid when the Dependent Care account is funded again through payroll deductions.

### ***How do I file claims for reimbursement?***

After you have paid for an eligible expense, submit a claim for reimbursement along with receipts or other required documentation to the address indicated on the claim form (available from your employer or CBCA).

### ***Is there a minimum claim amount?***

You must have at least \$10 of eligible expenses before requesting reimbursement from either account. The minimum reimbursement check amount is \$10. If a claim is submitted for less than the minimum, it will be held until subsequent claims total more than the minimum. (You may, however, submit a final claim for less than \$10 at the end of the year.)

### ***Who is responsible for determining if an expense claimed is an eligible expense?***

Claims and supporting documentation are reviewed by CBCA and processed in accordance with the terms and conditions of the program. The IRS dictates eligibility of expenses, and those guidelines are used by CBCA when reviewing claims.

### ***Can I change my election or stop contributing money to my flexible spending account at any time throughout the year?***

Federal regulations state that once you have enrolled and selected the contribution amount, you cannot change your decision until your next open enrollment unless you have a family status change such as marriage, birth of a child, or divorce. Refer to ***“Can I change my election or stop contributing money to my flexible spending account at any time throughout the year?”*** in the Health Care Flexible Spending Account FAQ for Employees and the Dependent Care Flexible Spending Account FAQ for Employees for details.