

Mid American Group
PO Box 482
Westmont, IL 60559
630-789-9508 phone
630-789-9421 fax

Health and Dependent Day Care Reimbursement Accounts

The Health Care FSA (Flexible Spending Account) helps you save money on your out of pocket health care expenses. The Dependent Care FSA helps you save money on your dependent care expenses. By using one or both of these accounts, you pay for these expenses with pre-tax dollars. Through the Health Care FSA you save a percentage of each dollar you spend on eligible medical, dental and vision services that are not fully covered or are ineligible for payment under your health care plan. Through the Dependent Care FSA you save a percentage of each dollar you spend on dependent care expenses incurred while you and/or your spouse work.

Health and Dependent Day Care Reimbursement Accounts Questions and Answers

- Q:** *What is eligible for reimbursement under the Health Care FSA?*
A: Eligible health care expenses (incurred by you, your spouse or your dependent) include health care plan deductibles, copayments, amounts over the maximum your plan pays and other expenses not covered by your health plan. For a more complete listing of eligible and ineligible expenses see the section titled Health Reimbursement Account Eligible Expenses. All submitted expenses will be reviewed according to the regulations of Internal Revenue Code Section 125.
- Q:** *Can I participate if I don't participate in my employer's medical insurance program?:*
A: Yes. You are eligible for these programs whether or not you are insured through your company.
- Q:** *What is eligible for reimbursement under the Dependent Day Care Account?*
A: Expenses may be reimbursed for services provided:

 - Inside or outside your home by anyone other than your spouse, a person you list as your dependent for income tax purposes or one of your children under the age of 19
 - In a dependent care center or a child care center. (If the center cares for more than six children, it must comply with all applicable state and local regulations)
 - By a housekeeper whose services include, in part, providing care for a qualifying individual.

Child and adult daycare, nursery and pre-school, after-school programs, summer day camp and taxes you pay on wages for eligible dependent care can be reimbursed through the Dependent Care FSA.

You must provide the social security or Tax Identification Number of the provider of service when you request reimbursement.

4. **Q:** *Who is an eligible dependent under the Dependent Care FSA?*
A: Your dependent care expenses must be for a qualifying individual who spends at least eight hours a day in your home and is one of the following:
- Your dependent under the age of 13 for whom you can claim an exemption
 - A child under the age of 13 for whom you have custody if you are divorced or legally separated.
 - Your spouse who is physically or mentally incapable of self-care.
 - Your dependent who is physically or mentally incapable of self-care, even if you cannot claim an exemption for the person for income tax purposes.
5. **Q:** *Can I change the amount(s) of my reduction during the plan year?*
A: You can only change or stop your reduction if you have a “major life change” during the plan year: divorce or marriage; the death of your spouse; the birth, adoption or death of a child, your spouse’s loss or commencement of employment; you or your spouse switching from full-time to part-time or part-time to full-time work; or any significant changes in the health care coverage provided by your employer or your spouse’s employer.
NOTE: Your election change must be submitted in writing to the Human Resources Department within 31 days of the major life change.
6. **Q:** *What if I itemize my health expenses on my tax return?:*
A: You cannot receive reimbursement from an FSA for an expense and also itemize the expense as a tax deduction on your tax returns. However, most people do not incur enough out of pocket medical expenses to be eligible for any deduction on their tax return (you can only deduct the amount of your medical and dental expenses that is more than 7.5% of your adjusted gross income).
7. **Q:** *What if I have money left in my account near the end of the year.*
A: You lose any money left in your account at the end of the plan year. To avoid losing any money, plan carefully and review your account before the end of the plan year. If you have money left, you might want to schedule an eye exam, an annual physical, or purchase additional monthly prescriptions prior to the end of the plan year. Remember, expenses can be incurred by you, your spouse or any dependent. With careful planning, you should never lose any money in your FSA.
8. **Q:** *What happens to my money if I leave my employer before the plan year ends?*
A: You have the following options:

You can continue to submit expenses incurred prior to your leaving to the Claims Administrator until the account balance for the plan year is used up.

If you terminate before all your contributions have been deducted and you will have to use the balance in your Health Account for services provided after your termination date, you may continue your eligibility through a COBRA extension (a COBRA extension does not apply to Dependent Day Care Accounts).

9. **Q: *Am I better off with Dependent Day Care Reimbursement Account or the Child and Dependent Care Tax Credit I can take on my Federal tax return?***

A: If you are paying for Dependent Day Care services for a child under age 13, a disabled dependent or a disabled spouse so that you or your spouse can work or look for work, you can take either of these approaches to reducing your taxes:

Child and Dependent Care Tax Credit
Or
Dependent Day Care Reimbursement Account

The best approach for you will depend on the number of dependents involved, the amount you are paying, and your adjusted gross income. Generally, the method of determining which approach is most effective for you is to compare the totals developed by:

1. Applying the Tax Credit percentage from IRS form 2441 to your expected Dependent Day Care cost for this plan year (NOTE: the maximum annual allowable fees effective in 2008 were \$3000 for one dependent and \$6000 for two or more); and,
2. Estimating your taxes for this plan year by applying the appropriate federal and state tax percentages to your expected Dependent Day Care cost for this plan year (to a maximum of \$6000 or \$3000 if you are married but file a separate federal income tax return)—and, if applicable, also applying 7.65% for your FICA contribution (6.2% to \$106,800 and 1.45% thereafter). The federal income tax rates for 2009 are 10%, 15%, 25%, 28%, 33%, or 35% depending on your adjusted gross income and filing status. The Illinois state income tax rate is 3%.

EXAMPLE OF TAX CREDIT AND REIMBURSEMENT ACCOUNT COMPARISON

Assumptions:	1. Adjusted Gross Income	\$45,000
	2. Dependent Day Care Cost (2 Dependents)	5,000
	3. Federal, State & FICA Tax Rate	34.2%

TAX CREDIT SAVINGS:

$\$6,000$ (maximum allowable in this example) \times 20% = \$1,200

DEPENDENT DAY CARE ACCOUNT SAVINGS:

$6,000 \times 24.2\%$ (with FICA) = \$1,710

Estimating Your Expenses

The following pages include a list of eligible and non-eligible expenses. These have been provided to assist you in estimating the eligible expenses that you and your family will incur during the plan year. We encourage you to keep the following suggestions in mind:

- Read the list of eligible and non-eligible expenses provided. This will help prevent you from putting money away for an expense that is not covered and will also provide “brainstorming” material for you to use when estimating the expenses you and your family will incur during the plan year.
- The expenses you estimate must be for services provided and supplies ordered/purchased within the plan year, January 1 through December 31.
- Put money in the account for expenses that you know you are going to incur rather than for expenses you think you are going to incur.
- Focus on predictable expenses, e.g., costs for drugs that are purchased on a routine basis, doctor visit co-pays, deductibles, out-of-pocket expenses for the treatment of a chronic illness such as allergies or hypertension.
- **KNOW YOUR INSURANCE BENEFITS** – In order to estimate your out-of-pocket expenses accurately, you must know how to estimate the insurance benefits that you will receive.
- Dependent day care expenses are eligible only for **services provided during the hours that you and your spouse are working** - you must be able to provide the social security or tax identification number of the provider of service – you cannot be reimbursed for payment made in advance of services rendered, e.g. payment made three months in advance to “hold an enrollment”.
- The \$6,000 dependent day care maximum allowed on your tax return is a “per family” maximum (\$3000 if you are married and filing separately). The \$5,000 dependent day care maximum allowed through flexible spending is also a “per family” maximum. Therefore, if your spouse has an account through his/her employer, the combined maximum of both your accounts cannot exceed \$5,000.

Health Reimbursement Account Eligible Expenses

The following are eligible:

1. Expenses covered by your employer's group health, dental and vision insurance plans but not reimbursed because of the deductible or co-payments.
2. Over the counter drugs used to alleviate or treat injuries or sickness.
3. Virtually all prescription vision expenses (including eyeglasses, contact lenses, and eye exams) as well as the cost of contact lens solution, a guide dog for the blind and special education devices for the blind, such as a special typewriter. This does not include premiums for contact lens replacement insurance.
4. Expenses that may not be covered by your group health, dental or vision plan, including (but not limited to):
 - Confinement to a facility primarily for screening tests and physical therapy or hydrotherapy
 - General physical exams
 - Diabetic testing strips
 - Cosmetic surgery if it is necessary to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or disfiguring disease.
 - Services for chromosome or fertility studies
 - Treatment (other than surgery, which is covered by the medical plan) of corns, bunions, calluses, foot structural disorders, etc.
 - Immunizations
 - Well baby care
 - Ace bandages, support hose, or other pressure garments prescribed by a physician
 - Charges in excess of reasonable and customary expenses
 - Acupuncture for pain relief as performed by a licensed practitioner
 - Vitamins and mineral supplements prescribed for treatment of an illness that can only be purchased with an FDA-approved prescription
 - Individual psychiatric or psychological counseling

- Smoking cessation program and prescription drugs designed to alleviate nicotine withdrawal
- Orthodontic services (note: the cost of the total orthodontic treatment must be prorated into monthly payments which span the total treatment period, e.g., \$100.00 a month for 24 months. You can only be reimbursed for each monthly cost that is incurred during the 12 month Reimbursement Account plan year, rather than the full cost of the entire treatment.)
- Dental implants
- Transportation expense to receive medical care, including fares for public transportation and actual out-of-pocket car expense, such as gas and oil. In lieu of out-of-pocket expenses, a standard mileage rate of 12 cents per mile (plus tolls and parking) can be used.
- Hearing expenses including hearing aids, special instructions or training for the deaf (such as lip reading), the cost of acquiring and training a dog for the deaf, and special telephone and audio display equipment for the deaf.
- Birth control pills.
- Childbirth and lactation classes.
- Hypnosis for treatment of an illness.
- “Halfway house” care to help individuals adjust from life in a mental hospital to community living.
- Tutoring by licensed therapist for a child with a severe learning disability and special schooling for handicapped.
- Lifetime care advance payment to private institution for lifetime care, treatment, or training of mentally or physically handicapped patient.
- Medical information plan fees paid to a plan maintaining individual’s medical information by computer.
- Special car controls for the handicapped.
- Reimbursement may also be made, at least in part, for certain capital expenditures, which are primarily made for health care reasons. For example, an air conditioner installed in the home of a person with severe allergies may qualify for partial reimbursement. Another example might be the installation of an exercise swimming pool to aid in the recovery of a stroke victim.
- Laser eye surgery.

Based on IRS Regulations The Following Are *Not Eligible*

1. Marriage or family counseling.
2. The salary expense of a licensed practical nurse (LPN) incurred in connection with the care of a healthy newborn (even though care may be required due to the death of the mother in childbirth).
3. Funeral and burial expense.
4. Household and domestic help (even though recommended by a qualified physician due to an employee's or dependent's inability to perform physical housework).
5. Custodial care in an institution.
6. Costs for sending a problem child to a special school for benefits the child may receive from the course of study and disciplinary methods.
7. Health club dues, YMCA dues, steam bath, etc.
8. Social activities, such as dance lessons or classes (even though recommended by a qualified physician for general health improvement).
9. Membership fees or costs associated with weight loss for general health and well-being purposes.
10. Maternity clothes, diaper services, breast pumps, etc.
11. Cosmetics, toiletries, toothpaste, etc.
12. Vitamins taken for general health purposes.
13. Cosmetic dentistry such as teeth whitening.
14. Carpal Tunnel support bands (unless accompanied by a doctor's script stating medical necessity)
15. Premiums for other group or individual insurance coverage.
16. The segment of automobile insurance premiums providing medical coverage for persons injured through an accident involving an employee's car.
17. Vacation or travel taken for general health purposes, improvement of morale, etc., or taken to relieve physical or mental discomfort not related to a particular disease or physical defect.
18. Retin-A when used solely for cosmetic purposes.
19. Herbs (even if they are used to treat an illness or injury).

Examples of FSA Savings

EXAMPLE 1

Assumptions:

1. Annual Taxable Earnings	\$45,000
2. Annual Health Account Deposit	1,200
3. Federal, State & FICA Tax Rate (2009)	24.2%

	<u>AFTER-TAX</u>	<u>PRE-TAX</u>
Annual Taxable Earnings	\$45,000	\$45,000
Less <u>Pre-Tax</u> Health Care Expenses	0	1,200
Taxable Income	\$45,000	\$43,800
Less Estimated Income Taxes	15,390	14,80
Annual Income After Taxes	\$29,610	\$28,820
Less <u>After-Tax</u> Health Care Expenses	1,200	0
Spendable Income	\$28,410	\$28,820

This employee has **increased their annual take-home pay by \$410.00** through the Pre-Tax Reimbursement Account.

EXAMPLE 2

- Assumptions:
- | | |
|---|----------|
| 1. Annual Taxable Earnings | \$75,000 |
| 2. Annual Health & Dependent Care Account Deposit | 5,500 |
| 3. Federal, State & FICA Tax Rate (2009) | 34.2% |

	<u>AFTER-TAX</u>	<u>PRE-TAX</u>
Annual Taxable Earnings	\$75,000	\$75,000
Less Pre-Tax Health Care and Dependent Day Care Expenses	0	5,500
Taxable Income	<hr/> \$75,000	<hr/> \$69,500
Less Estimated Income Taxes	25,650	23,769
Annual Income After Taxes	<hr/> \$49,350	<hr/> \$45,731
Less After-Tax Health Care and Dependent Day Care Expenses	5,500	0
Spendable Income	<hr/> \$43,850	<hr/> \$45,731

This employee has **increased their annual take-home pay by \$1,881.00** through the Pre-Tax Reimbursement Account.



Health Care FSA Worksheet

Use this worksheet to help you determine your Health Care FSA election amount. You may want to review receipts from last year for health care expenses you paid out of your pocket. Using these receipts and the worksheet, you can estimate the amount you want to elect for the Health Care FSA. Remember, eligible expenses include those for you, your spouse and your dependents.

Deductibles expected to satisfy

Medical, dental, vision \$ _____

Copayments/coinsurance expected to satisfy

\$ _____

Amounts paid over plan limits

Over reasonable and customary allowance \$ _____

Over psychiatric limits \$ _____

Expenses NOT covered by your insurance plan

Prescription drugs \$ _____

Over-the-counter drugs \$ _____

Vision care \$ _____

Dental/orthodontic care \$ _____

Treatments/therapies \$ _____

Fees/services \$ _____

Medical equipment \$ _____

Psychiatric care \$ _____

Assistance for the disabled \$ _____

Other eligible expenses \$ _____

Total out-of-pocket health care expenses

\$ _____

(total of all the above expenses)