



Flexible Spending Plan Overview

At the beginning of each plan year you have the opportunity to take advantage of current laws and regulations to save taxes on the following:

- the expenses you incur for health care services and supplies that are not reimbursed by our group insurance plan or other plans e.g., your spouse's plan;
- the expenses you pay for dependent day care so that you and your spouse can work.

Savings are achieved because you will be able to pay for these expenses with pre-tax dollars, i.e., before Federal and State income taxes, and if applicable, Social Security taxes are deducted. Depending on your personal tax situation, the savings achieved should range from 18% to 35% of the money you are already spending for these items.

The two options that will enable you to take advantage of the tax savings are:

- 1. Health Care Flexible Spending Account** - You estimate the amount of unreimbursed medical and dental expenses (and other IRS approved expenses described in this packet) that you and your family will incur during your eligibility period within the plan year. The amount you select up to the maximum allowed is then taken from your pay before taxes, deposited into your Health Care Flexible Spending Account and then paid to you from your Account when you submit a claim.
- 2. Dependent Day Care Flexible Spending Account** - Operates like the Health Care Flexible Spending Account except that the expenses are for the care of a child (age 12 and under) or a disabled spouse or dependent that enables you and your spouse to work. The maximum for this account is **\$5,000 per year** or \$2,500 if you are married and filing separately.

For the purposes of the Health Care and Dependent Care Accounts a dependent is anyone that you claim as a tax dependent on your federal income tax return.

Once you enroll in an option, you cannot change your election during the 12-month plan year unless you have a qualifying event and your election change is consistent with that event. Please see *Election Changes: When & How* for details.

You can elect either or both of these options. You do not have to be enrolled in the Group Health Care Insurance Plan to enroll in flexible spending. To enroll you must complete the Section 125 Pre-Tax Premium and Flexible Spending Account Enrollment Form and submit it to your Human Resources Dept. by the required deadline. Information explaining your choices in more detail is attached. **Note: Your election to participate is effective only for one plan year at a time. Therefore, each new plan year you must turn in an enrollment form to continue to participate.**

Because of the restrictions the IRS applies to Flexible Spending Accounts (for example, you cannot keep any money left in your account at the end of the year), planning is the key to achieving maximum savings. A Flexible Spending Account worksheet and other information that can assist you in estimating the amount(s) you should consider reducing from your pay are also attached.

Election Irrevocability

Important Note: You cannot change the amount you elect to be deducted from your earnings pre-tax until the beginning of the next plan year unless you have a qualifying event. Your election change must be on account of and consistent with the event change. For example, the birth of a child may increase your out-of-pocket expenses; therefore, you can increase your elected account maximum to cover the new expenses you will incur for your new dependent. You must submit your election change in writing to your Human Resources Dept. within 31 days of the qualifying event. *Election Changes: When & How* provides a list of qualifying events. Be sure to review it before enrolling in this option.



For assistance with your questions contact our plan administrator:

**Mid American Group
(630) 789-9508**

Follow the menu prompts to connect to a Flexible Spending Account representative.



Flexible Spending Account Q&A:

Why have one?

The purpose of Flexible Spending Accounts is to save taxes. Through enrollment in one or both of these accounts, you will not have to pay Federal and State income taxes and (if applicable) FICA taxes on the income you use to pay for eligible health care and dependent day care expenses. The following is an example of the amount of tax savings that can be generated:

After-Tax vs. Pre-Tax Flexible Spending Accounts			
1. Annual Taxable Earnings		\$50,000	
2. Health Care Account Maximum		\$ 1,500	
3. Dependent Care Account Maximum		\$ 4,000	
4. Federal/State/FICA Taxes			31%
	<u>After-Tax</u>	<u>Pre-Tax</u>	
Annual Taxable Earnings	\$50,000	\$50,000	
Less Pre-Tax Payment	<u>\$ 0.00</u>	<u>5,500</u>	
Taxable Income	\$50,000	\$44,500	
Less Estimated Income Taxes	<u>\$ 15,500</u>	<u>\$13,795</u>	
Annual Income After Taxes	\$ 34,500	\$30,705	
Less After-Tax Payment	<u>\$ 5,500</u>	<u>\$ 0.00</u>	
Spendable Income	\$ 29,000	\$ 30,705	

This employee has increased their annual take home pay by \$1705.00 through these pre-tax Flexible Spending Accounts

Is this a voluntary program?

Yes.

What kind of expenses can I pay from a Health Care Account?

Services and supplies reimbursable from your Health Care Account include those not paid by your group insurance plan (or your spouse's) because of the deductibles and co-payments, and those expenses not eligible under an insurance plan but considered deductible by the IRS. Examples of services and supplies that may not be reimbursed by our group Health Plan include, eye exams, glasses or contact lenses, contact lens solution and hearing aids, over-the-counter drugs (**SEE PAGE 6 FOR FURTHER DETAILS**) and medical supplies.

What kind of expenses can I pay from a Dependent Day Care Account?

You can be reimbursed from your Dependent Day Care Account for expenses associated with the care of dependent (age 12 and under or age 13 and over and disabled) during the hours that you and your spouse are working. Most kinds of dependent care services are covered, including care in your home or in a dependent care facility such as a day care center. Fees for non-care related items such as, t-shirts and photos are not eligible. Tuition for kindergarten, first grade and higher are not eligible for reimbursement. **You must provide the Social Security or Tax Identification number of the provider of service when you request reimbursement.**

How does the program work?

First, prior to the beginning of the plan year you estimate the expenses that you want reimbursed from each of the Accounts during the plan year (you can enroll in either Health Care, Dependent Day Care, or both). The annual total you select for your Health Care Flexible Spending Account and your Dependent Day Care Flexible Spending Account will be divided by the number of pay periods in your plan year to determine the amount that will be taken from each paycheck in the plan year.

Then you complete the enrollment form available through your employer, which authorizes the reduction in pay for the express purpose of flexible spending reimbursement.

Your employer communicates the type and amount of each Account to the Claims Administrator (Mid American Group). Your salary reduction will be deposited in your Account(s) at each payroll.

When you incur an expense that is reimbursable from your Account, you can use your debit card or complete and submit a claim form to Mid American Group using the Section 125 Flexible Spending Account claim forms available through your employer (which include filing instructions). There is a separate claim form for Health Care Accounts and Dependent Day Care Accounts.

You will be sent the status of your Account each time a manual claim is processed. You can also access your account balance and transactions as well as request reimbursement for manual claims online at **www.mbicard.com**.

You have 90 days following the end of the plan year to file claims incurred during the spending eligibility period.



Can I change the amount(s) of my reduction during the plan year?

You can only change or stop your reduction if you have a qualifying event during the plan year (see *Election Changes: When & How* for the definition). Note: Your election change must be on account of and consistent with the event and submitted in writing to your Human Resources Dept. within 31 days of the event change.

Are there any potential disadvantages?

These possible disadvantages exist:

If you do not use all of the money you deposit during the plan year, you cannot get it back. Careful estimating should avoid this problem. Detailed information about eligible expenses, tips on how to estimate your expenses, along with a worksheet to help you develop your estimate are included in this packet;

You cannot change the amount of your reduction during the plan year unless you have a qualifying event;

If you are eligible for Social Security, the reduction in your FICA wages may slightly reduce your survivor and disability benefits (see final page of information packet).

How can I avoid the possibility of losing money?

Careful planning is the only way. Reviewing your family's medical expense history might be helpful and, of course, some expenses are predictable. Routine medical exams, orthodontia and eyeglasses or contact lenses are good examples for the Health Care Flexible Spending Account, and Dependent Day Care needs and expenses are usually easy to forecast. Using the Accounts can save hundreds of dollars on these expenses because you are paying for them with pre-tax dollars.

Why can't I get my money back if there's any left in my Account?

IRS regulations do not allow an employer to return the money.

Can I carry money left in an Account to the next plan year?

No.

What happens to the money left in my Account that I have to forfeit?

Per the IRS, it remains with the employer.

Can I transfer money between the Health Care Flexible Spending Account and the Dependent Day Care Account?

No, the IRS will not allow a transfer.

Can I earn interest on the money deposited in my Flexible Spending Account?

No. Current regulations indicate that the IRS will consider paying interest on the Flexible Spending Account balance illegal. The money is not expected to remain in the account for any length of time because of continuous requests for reimbursement of expenses as they are incurred.

What happens if I take a leave of absence or if I'm on a disability leave?

If you are on an unpaid leave of absence and want your deductions to stop, you can terminate from the program because an unpaid leave of absence is a qualifying event. If you do not want to terminate or if you are on a disability leave, deductions must still be taken from your earnings. The schedule of how deductions will be taken during this time off will be handled on a case-by-case basis, and you must contact your Human Resources Dept. to make arrangements.

What happens to my money if I leave my employer before the plan year ends?

You can continue to submit expenses incurred prior to your leaving to the Claims Administrator until the Account Balance for the plan year is exhausted.

If you terminate before all your contributions have been deducted and you will have to use the balance in your Health Care 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).

Is the Dependent Day Care Flexible Spending Account going to generate more savings for me than the Child and Dependent Care Tax Credit I can take on my Federal tax return?

The answer to this question depends on several variables, e.g., the number of dependents receiving care, the cost for the care, and your adjusted gross income. *Refer to Dependent Care vs Tax Credit* for further assistance.

How do I enroll?

Enrollment Forms and information to help you complete the forms are available through your employer.

Can I enroll in the future if I don't enroll this year?

Yes, you will have the opportunity to enroll at the beginning of each new plan year or if you have a qualifying event as described. *Refer to Election Changes: When & How* in this information packet.

Health Care FSA Eligible Expenses

Expenses covered by your group medical and dental insurance plans (or other plans, i.e., your spouse's employer's plan) but not reimbursed because of the deductible or co-payments

Expenses that **may not** be covered by your group health or dental plan, including (but not limited to):

- Copayments for Prescription medications
- Virtually all prescription vision expenses (including eyeglasses, contact lenses, and optometrist) as well as the cost of contact lens solution, LASIK eye surgery a guide dog for the blind and special education devices for the blind, such as a special typewriter, not including the cost of premiums for contact lens replacement insurance
- general physical exams (with the exception of those related to employment or a hobby)
- cosmetic procedure(s) and related supplies and prescriptions if it is necessary to correct 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 a medical plan) of corns, bunions, calluses, foot structural disorders, etc.
- immunizations
- well baby care
- charges in excess of reasonable and customary expenses
- acupuncture for pain relief as performed by a licensed practitioner
- smoking cessation programs that are **prescribed by a physician** as well as related drugs that can only be purchased with an FDA approved prescription
- weight loss program and/or prescriptions drugs that are **prescribed by a physician** to treat the illness (the cost of special foods is not eligible)
- over-the-counter drugs and supplies purchased to treat an illness, injury, or condition and are not being used for a person's general well being (**SEE PAGE 6 FOR FURTHER DETAIL**)
- vitamins, minerals, and herbs **prescribed by a physician** to treat an injury, illness, or condition. Note: These expenses require a letter of medical necessity from the prescribing physician
- individual psychiatric or psychological counseling
- orthodontic services (note: you may need to spread your Ortho reimbursements over the life of the appliance.)
- Transportation expenses 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 23.5¢ per mile (2011) (plus tolls and parking) can be used (mileage rate is subject to change by the IRS at any time)
- 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
- 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 that 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. You must provide proof of the medical necessity for these types of items. It is HIGHLY recommended that you consult with Mid American Group regarding eligibility of such items before you include them in your election.

Examples of Non-Eligible Expenses

- Marriage or family counseling
- Premiums to carry other group or individual insurance coverage
- Cosmetic procedures, supplies, and prescriptions that are performed/provided solely for cosmetic purposes
- Household and domestic help (even though recommended by a qualified physician due to an employee's or dependent's inability to perform physical housework)
- Custodial care in an institution
- Costs for sending a problem child to a special school for benefits the child may receive from the course of study and disciplinary methods
- Health club dues, YMCA dues, steam bath, etc.
- Social activities, such as dance lessons or classes (even though recommended by a qualified physician for general health improvement)
- Maternity clothes, diaper service, etc.
- Teeth bleaching if the origin of the tooth discoloration is not due to an illness or injury
- Vitamins, minerals, and herbs taken for general health purposes, even if prescribed by a practitioner
- The salary expense of a licensed practical nurse (LPN) incurred in connection with the care of a normal and healthy newborn (even though such care may be required due to the death of the mother in childbirth)
- Weight loss programs and related prescription drugs taken for the general well being of the individual rather than treatment of an illness, Vacation or travel taken for general health purposes, a change in environment, improvement of morale, etc., or taken to relieve physical or mental discomfort not related to a particular disease or physical defect
Retin-A when used solely for cosmetic purposes.

Estimating Your Expenses

To properly estimate your account maximum, focus on the expenses you and your dependents will incur in the coming plan year. This includes, identifying the service/supplies that are FSA eligible and then how much you will have to pay out of your pocket once any and all insurance plans make a benefit payment. Your account maximum should be the total amount of your ultimate liability on the services and/or supplies provided during the plan year. We encourage you to work with the enclosed worksheet and also keep the following suggestions in mind when estimating your expenses.

The expenses you estimate must be for services provided and supplies ordered/purchased within the plan year.

Focus on predictable expenses, e.g., routine/preventative treatment, dental expenses, over-the-counter drugs/supplies (**SEE PAGE 6 FOR FURTHER DETAIL**) cost for prescription drugs that are purchased on a routine basis, or your out-of-pocket expenses for treatment of a chronic illness, i.e., 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 \$5,000 dependent day care maximum is a "per family" maximum (or \$2,500 if you are married and filing separately) therefore, if your spouse has an account through his or her employer, the combined maximum of both your accounts cannot exceed \$5,000.



OVER-THE-COUNTER PURCHASE REQUIREMENTS

The following categories of items will require a doctor's prescription and thus, may not be purchased using a FSA debit card, therefore the expense must be filed manually:

- Acid Controlllers
- Allergy & Sinus
- Antibiotic Products
- Anti-Diarrheals
- Anti-Gas
- Anti-Itch & Insect Bite
- Anti-parasitic Treatments
- Cough, Cold & Flu
- Stomach Remedies
- Digestive Aids
- Feminine Anti-Fungal/Anti-Itch
- Hemorrhoidal Preps
- Laxatives
- Motion Sickness
- Pain Relief
- Respiratory Treatments
- Sleep Aids & Sedatives

The following are examples of some OTC items that remain available without a doctor's prescription and may continue to be purchased with the FSA debit card:

- Band Aids
- Birth Control
- Braces & Supports
- Catheters
- Contact Lens Supplies & Solutions
- Denture Adhesives
- Diagnostic Tests & Monitors
- Elastic Bandages & Wraps
- First Aid Supplies
- Insulin & Diabetic Supplies
- Ostomy Products
- Reading Glasses
- Wheelchairs, Walkers, Canes

Ineligible Expenses

A list of OTC items that have been determined will not be reimbursed under any circumstances since they are toiletries or cosmetics or likely to be used primarily for general health and well being.

- | | |
|----------------------------|--|
| Chapstick | Face cream, moisteners |
| Medical shampoos and soaps | Vitamins |
| Suntan lotion | Sonic (electric) toothbrushes/general toothbrushes |
| Sanitary products/diapers | |

**THE FSA DEBIT CARD MAY NOT WORK AT ALL MERCHANTS.
IF THE PURCHASE IS QUALIFIED, FILE A MANUAL CLAIM
FOR THE EXPENSE.**



Flexible Spending Account Worksheet

Projected
Unreimbursed Expenses \ Expenses
During 12-month Plan Year

Health Care Reimbursement Account
(up to maximum allowed per employee)

Health Care Expenses:

Deductible- \$ _____

Co-insurance/Co-payments- _____

Dental/Orthodontia Expenses:

Deductible- _____

Co-insurance/Co-payments- _____

Eye Exams/Glasses/Contact Lenses- _____

Routine Office Visits- _____

Immunizations/Inoculations- _____

Other: (List is Provided as Exhibit A) _____

TOTAL - Projected Unreimbursed Expenses \$ _____

2. Dependent Day Care Reimbursement
amount (maximum \$5,000 per family)

Review Exhibit D to determine the appropriate amount, if any, you should deposit in your Dependent Day Care Reimbursement Account for expenses incurred during Plan Year.

\$ _____

COMPUTATION: Divide the total amount in item 1 and item 2 by the number of paychecks you will receive during the Plan Year to determine the total amount by which your salary will be reduced each pay period of the plan year. Then insert the amount for each Account in the appropriate blank space next to "per pay period" on the SECTION 125 FLEXIBLE SPENDING PLAN ENROLLMENT FORM.



**Dependent Care Account
vs. Tax Credit
Which Approach Will Save The Most Tax Dollars?**

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 Flexible Spending 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:

Applying the Tax Credit percentage from IRS form 2441 (see column to the right) to your expected Dependent Day Care Cost for this plan year (NOTE: the maximum annual allowable fees are \$3000 for one dependent and \$6000 for two or more); and,

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 \$5000 or \$2500 if you are married but file a separate Federal income tax return)--and, if applicable, also applying 7.65% for your FICA contribution (7.5% to \$106,800 for 2009 and 1.45% thereafter). The Federal Income tax rate was 10%, 15%, 25%, 28%, 33% or 35% (2009), depending on your adjusted gross income and filing status, the state income tax rate is 3%. See the example below.

Dependent Care Tax Credit Percentage

<u>Adjusted Gross Income</u>		<u>Percentage</u>
<u>Over</u>	<u>But Not Over</u>	
\$ 0	\$15,000	35%
15,001	17,000	34%
17,001	19,000	33%
19,001	21,000	32%
21,001	23,000	31%
23,001	25,000	30%
25,001	27,000	29%
27,001	29,000	28%
29,001	31,000	27%
31,001	33,000	26%
33,001	35,000	25%
35,001	37,000	24%
37,001	39,000	23%
39,001	41,000	22%
41,001	43,000	21%
43,001	N/A	20%

EXAMPLE OF TAX CREDIT AND FLEXIBLE SPENDING ACCOUNT COMPARISON	
1. Annual Taxable Earnings	\$40,000
2. Annual Contribution for Group Benefits	\$ 3,000
3. Federal/State Taxes	22%
<u>Tax Credit Savings:</u>	
\$3,000 (Maximum Expenses) x 22% = \$660.00 of tax savings	
<u>Dependent Day Care Account Savings:</u>	
\$3,000 x 22% (normal tax without FICA) = \$660.00 of tax savings	
\$3,000 x 38.65% (normal tax with FICA) = \$1,160.00 of tax savings	

The example below illustrates that under certain circumstances, the Dependent Care Account will save more taxes than the Child and Dependent Tax credit. If after reading this material you have any questions on which approach would be more beneficial to you, we encourage you to contact a tax advisor.



Election Changes: When & How

Once you have enrolled in one of the plan options, you cannot change your election until the beginning of the next plan year unless you have an IRS qualifying event and the event is consistent with your election change. For example, you cannot add or drop your pre-tax coverage for your dependents unless you have a qualifying event that directly affects your current election, or, you cannot increase or decrease your Health Care or Dependent Care Account maximum unless the qualifying event is consistent with your requested change.

Your election change must be submitted to your Human Resources Dept. within 31 days of the qualifying event. An IRS qualifying event is defined in the list below. Note: Although most events apply to all three options, some only apply to specific options. This is noted in each of the following events:

- Change in an employee's legal marital status including marriage, divorce, death of spouse, legal separation, and annulment.
- Change in employee's number of dependents due to birth, adoption, placement for adoption and death.
- Change in employment status of the employee, employee's spouse, or employee's dependent due to a termination or commencement of employment; strike or lockout; a commencement of or return from an unpaid leave of absence; a change in the worksite.
- The commencement or termination of adoption proceedings.
- Any legal judgments, decrees, or orders.
- Any COBRA events **(does not apply to Dependent Care Accounts)**.
- Entitlement to Medicare or Medicaid **(does not apply to Dependent Care Accounts)**
- Any changes to your Dependent Care service provider or in the cost of care **(only applies to Dependent Care Accounts)**.

Section 125 Salary Reductions Impact On Social Security Benefits

Estimates of the amount by which Social Security Retirement income will be reduced if an employee reduces his or her salary on a pre-tax basis are presented below. These examples assume that the Annual Compensation and Salary Reduction remain constant to age 65.

Employee Age	Annual Compensation	Annual Section 125 Salary Reduction	Reduction in Monthly Social Security Benefit
25	\$25,000	\$1,000	\$18.60
25	35,000	5,000	59.00
35	25,000	1,000	11.00
35	40,000	5,000	44.80
45	30,000	1,000	6.90
45	45,000	5,000	37.50
55	35,000	1,000	3.90
55	50,000	5,000	11.90

The combined tax savings should exceed the reduction in Social Security benefits. For example, a person with \$25,000 of taxable earnings who is age 25 will save \$21.38 per month in taxes (versus \$18.60 in Social Security benefit reduction). The \$21.38 tax savings was calculated as follows:

Federal Income Tax	15.00%
IL State Income Tax	3.00%
FICA Tax	7.65%
Total Tax Savings	25.65%

Salary Reduction of \$1,000.00 x 25.65% = \$256.50 annual savings \$256.50 ÷ 12 = \$21.38 monthly savings.