

# FLEXIBLE SPENDING ACCOUNTS (FSAs)



The Flexible Spending Accounts (FSAs) are optional benefit plans offered to eligible employees. The FSAs allow an employee to deduct a portion of their pay pre-tax to pay for qualified medical expenses and dependent care expenses. Contributions to a Medical FSA can save an employee between 20.72%-50.32%, depending on your applicable tax rates. Contributions to the Dependent Care FSA can save an employee between 17.65%-47.25%, depending on your applicable tax rate.



## What are Flexible Spending Accounts (FSAs)?

FSAs are optional spending accounts in which an employee can elect to contribute a portion of their pay pre-tax to pay for qualified uncovered medical and dependent care expenses.

## Two (2) Types of FSAs

*Medical FSA*— Pay for you and your dependents uncovered medical expenses.

*Dependent Care FSA*—Pay for the daycare expenses of your dependents in order for you to remain gainfully employed. Dependents include children up to age 13, dependent elderly parents and special needs children.

## Tax-Free

*Medical*—exempt from all taxes: federal(10-39.6%), FICA(7.65%), state (3.07%), local(1-3%); saves employee between 20.72% to 52% (depending on your applicable federal income tax rate and local tax rate).

*Dependent Care*—exempt from federal (10-39.6%) and FICA (7.65%), but subject to local and state.



## Maximum Contributions

*Medical*— \$2,700 per employee

*Dependent Care*—\$5,000 per household (\$2,500 for married filing separately)

## \$500 Carryover and Use-It-Or-Lose Rule

*\$500 Carryover for Medical FSA*—allows a participant to rollover up to \$500 of unused Medical FSA funds to the next Plan Year without limiting the maximum for the year in which the funds are carried over.

*Use-It-Or-Lose-It Rule*—Any balance above \$500 in a Medical FSA at the end of the Plan Year is forfeited to the Plan. Any balance remaining in a Dependent Care FSA at the end of the Plan Year is forfeited to the Plan.



## How Does it Work?

During Open-Enrollment, an employee elects to contribute an amount to the Medical FSA and/or Dependent Care FSA. This amount is piecemealed through equal pre-tax payroll reductions through the Plan Year.

## Tax-Effect

Since these payroll reductions are pre-tax, the amount you deduct from your check will not be equal to the amount in which your take-home pay will be decreased due to the payroll reduction.

*Example:* An employee has an applicable federal tax rate of 25%, a local tax rate of 1%, plus the state tax rate of 3.07% and an employee's portion of FICA at 7.65%, this employee will save a total of 36.72% in tax savings when contributing to a Medical FSA. If this employee contributes \$50 per pay for an annual target of \$1,300 to the Medical FSA, this employee's take-home pay will only be decreased by \$31.64 per pay, or \$822.64 for the year. However, when this employee purchases qualified medical expenses, the full \$1,300 is reimbursable to the employee.

*In other words,* this employee used \$1,300 of their pay for qualified medical expenses through the FSA. If this employee had the same expenses and paid with taxed dollars, this employee would have used \$1,777.36 of their pay.

If this employee contributed the same amount to a Dependent Care FSA, this employee would have saved 32.65% since Dependent Care FSA contributions are subject to state and local income tax.



## Eligible Medical Expenses:

**Medical**—You may claim uncovered eligible medical expenses for you and your dependents.

**Common eligible medical expenses:** doctor office copays, deductibles, coinsurance, medical exams provided by a medical professional, LASIK, contacts, contact solution, eye glasses, protective sports gear and support, sunscreen, therapy, weight loss aids and programs when prescribed by a doctor, first aid kit, home test kit, birth control, transportation (\$.17 per mile), lodging and meals while traveling for health care (per diem rates), medical aides and braces (crutches, hearing aids, orthopedic shoes, elastic hosiery, arthritis supports), exercising and exercise equipment when prescribed by a doctor to treat a medical condition, private hospital room.



**Over-the-Counter**—2 categories: (1) OTC Medications and Drugs (2). OTC Medical Supplies

**-OTC Medications and Drugs**—Requires a doctor's prescription in order to be eligible for reimbursement.

Examples of these are: cough suppressants, pain relievers, vitamins, fever reducer, etc.

**-OTC Medical Supplies**—Eligible for reimbursement. Examples: bandages, braces, contact solution, etc.

Contact DeHEY McANDREW at 570-346-9960/800-353-9436 for a complete list of eligible items.

## Eligible Dependent Care Expenses:

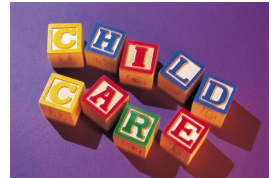
Pay for the day care expenses of your dependent children under 13, special needs children, and/or dependent parents in order for you to remain gainfully employed.

Services may be rendered by a professional day care organization or may be rendered by an individual that you cannot claim as a dependent.

## Reimbursement Procedures:

**Medical FSA**—Employees enrolled in the Medical FSA have two options for using their FSA funds: (1) Medical FSA Debit Card, and (2) submit a claim and receive reimbursement.

In some cases when expenses are provided at certain providers, Medical FSA participants may not be able to utilize the Medical FSA Debit Card and must pay for the expense out-of-pocket and file for reimbursement of the expense. Furthermore, there will be cases when the Medical FSA Debit Card will be allowed, but a receipt must still be submitted. Refer to the handout "DMFLEX INTRODUCTION" for more information. Paper claims are paid every Friday. In most cases, paper claims can be expedited and reimbursed within 24-48 hours.



## Common Eligible FSA Expenses

- Prescription Drugs
- Office Visits
- Contact Lenses and Solution
- Eyeglasses
- Vision expenses
- LASIK
- Chiropractic Care
- Copays, Deductibles, Coinsurance
- Dental
- Over-the-Counter Medicines (requires doctor's letter)
- First Aid Kit
- Medical Laboratory Fees
- Transportation and Lodging for health care (per diem rates)

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