

Flexible Spending Accounts

Flexible Spending Accounts (FSAs) provide you with an important tax advantage that can help you pay health care and dependent care expenses on a pre-tax basis. By anticipating your family's health care and dependent care costs for the next year, you can actually lower your taxable income.

Essentially, the Internal Revenue Service set up FSAs as a means to provide a tax break to employees and their employers. As an employee, you agree to set aside a portion of your pre-tax salary in an account, and that money is deducted from your paycheck over the course of the year. The amount you contribute to the FSA is not subject to Social Security (FICA), federal, state, or local income taxes — effectively adjusting your annual taxable salary. The taxes you pay each paycheck and collectively each year can be reduced significantly, depending on your tax bracket. And, as a result of the personal tax savings you realize, your spendable income will increase.

The example below illustrates how a flexible spending account can save you money.

Bob and Jane's combined gross income is \$30,000. They have two children and file their income taxes jointly. Since Bob and Jane expect to spend \$2,000 in adult orthodontia and \$3,300 for daycare next year, they decide to direct a total of \$5,300 into their FSAs.

	Without FSAs	With FSAs
Gross income:	\$30,000	\$30,000
FSA contributions:	0	-5,300
Gross income:	30,000	24,700
Estimated taxes:		
Federal	-2,550*	-1,755*
State	-900**	-741**
FICA	-2,295	-1,890
After-tax earnings:	24,255	20,314
Eligible out-of-pocket medical and dependent care expenses:	-5,300	0
Remaining spendable income:	\$18,955	\$20,314
Spendable income increase:		\$1,359

*Assumes standard deductions and four exemptions.

** Varies, assume 3%.

The example above is for illustrative purposes only. Every situation varies and we recommend that you consult a tax advisor for all tax advice.

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The Health Reimbursement FSA lets you pay for certain IRS-approved medical care expenses not covered by your insurance plan with pre-tax dollars. For example, cash that you now spend on deductibles, copayments, or other out-of-pocket medical expenses can instead be placed in the Health Reimbursement FSA pre-tax, to pay for these expenses. **NOTE: Effective 1/1/2013, the annual maximum an employee may elect to deduct pre-tax is \$2,500. The annual maximum allowed by your employer may be less than this amount.**

Eligible Expenses

Eligible health care expenses for the Health Reimbursement FSA include more than just your deductible and copayments. Generally, any medically necessary health care expense that you can deduct on your tax return is considered an eligible expense. Some examples include:

- ✓ Hearing services, including hearing aids and batteries
- ✓ Vision services, including contact lenses, contact lens solution, eye examinations, and eyeglasses
- ✓ Dental services and orthodontia
- ✓ Chiropractic services
- ✓ Acupuncture
- ✓ Prescription contraceptives

For more information about eligible medical expenses, please refer to the *IRS Publication 502, Medical and Dental Expenses* available at <http://www.irs.gov/pub/irs-pdf/p502.pdf>.

Dependent Care FSA

The Dependent Care FSA lets you use pre-tax dollars towards qualified dependent care. The annual maximum amount you may contribute to the Dependent Care FSA is \$5,000 (or \$2,500 if married and filing separately) per calendar year.

If you elect to contribute to the Dependent Care FSA, you may be reimbursed for:

- ✓ The cost of child or adult dependent care
- ✓ The cost for an individual to provide care either in or out of your house
- ✓ Nursery schools and preschools (excluding kindergarten)

Eligible Expenses

In order for dependent care services to be eligible, they must be for the care of a tax dependent child under age 13 who lives with you, or a tax

dependent parent, spouse, or child who lives with you and is incapable of caring for himself or herself. The care must be needed so that you and your spouse (if applicable) can go to work. Care must be given during normal working hours — Saturday night babysitting does not qualify — and cannot be provided by another of your dependents.

Is the FSA Program Right for Me?

Flexible Spending Accounts are beneficial for anyone who has out-of-pocket medical, dental, vision, hearing, or dependent care expenses beyond what his or her insurance plan covers.

It's easy to determine if a FSA will save you money. At enrollment time, you will need to determine your annual election amount. Estimate the expenses that you know will occur during the year. These include out-of-pocket expenses for yourself and anyone claimed as a dependent on your taxes. If you had \$100 or more in recurring or predictable expenses,

the accounts can help you stretch your dollars.

How Do the Accounts Work?

If you decide to enroll in one or both of the accounts, your contributions are taken out of each paycheck — before taxes — in equal installments throughout the year. These dollars are then placed into your FSA. When you have an eligible health care or dependent care expense, you must submit a claim form along with an itemized receipt to be reimbursed from your account.

The Health Care Reimbursement FSA will reimburse you for the full amount of your annual election (less any reimbursement already received), at any time during the plan year, **regardless of the amount actually in your account.**

The Dependent Care FSA will only reimburse you for the amount that is in your account at the time you make a claim.

Important: Use it or Lose It!

If you decide to contribute to the Health Care Reimbursement FSA or the Dependent Care FSA, you must carefully determine your annual election amount and your spending during the plan year. According to IRS regulations, the money you set aside must be used for expenses incurred during the plan year in which you make the election. Any funds left in the account at the end of the year will be forfeited.