

FLEXIBLE SPENDING “REIMBURSEMENT” ACCOUNT PLAN

The Anchorage School District has initiated a program that allows you to pay for qualifying medical, dental and vision expenses, dependent care expenses, and insurance deductibles. This plan offers you two ways to pay for out-of-pocket health care and dependent day care expenses with pre-tax dollars. This program is called a Section 125 Plan or Flexible Spending Account (FSA) Plan. Before each new Plan Year, ASD offers an annual open enrollment period for eligible employees to enroll, approximately the middle of May into the beginning of June. Your enrollment form must be submitted to the Benefits Department by the established deadline to be considered a participant for the following fiscal year, July 1st through June 30th. Based on your estimated Health Care and/or Dependent Care expenses for the following plan year, you designate a set amount to be taken from your pay check to fund your account(s). Monthly deductions will be withheld from your paycheck September through June. This funding will be held in a District account during your eligible period. To submit for reimbursement for incurred eligible expense, send a completed “Request for Reimbursement Claim Form”* and proof of your out-of-pocket expense to the FSA provider. You will receive a refund check from the FSA provider.

DURING ANNUAL OPEN ENROLLMENT (Mid May – Beginning of June)

- The FSA Plan requires annual re-enrollment by completing the FSA Open Enrollment form with submission to the Benefits Department by the deadline
- Decide how much your “out-of-pocket” Health Care and/or Dependent Care expenses will be during the upcoming fiscal year to determine your annual election amount
- Minimum annual election is \$300 for each account (Health Care FSA & Dependent Care FSA)
- Maximum annual election is \$3600 for Health Care Account
- Maximum annual election for Dependent “Day Care” Account: (\$5000/family limit)
Single Person \$5,000; Married filing separately \$2,500 each; Married filing jointly \$5,000 (per family limit)
- Effective July 1st of each new fiscal year, eligible employees currently enrolled in the FSA Plan may use the health care plan for eligible medical, dental and vision expenses for “out-of-pocket” expenses not covered by your insurance plan: deductibles; co-pays; and over the counter drugs are considered reimbursable expenses
- Monthly deductions will be withheld from your pay checks September through June

ADVANTAGES OF PARTICIPATING IN A FSA PLAN

- Reduces your taxable income
- FICA withholding tax (Social Security & Medicare) savings
- Federal withholding tax savings

Prior to this benefit option, you paid for many health care and dependent care expenses with after-tax dollars and then applied the federal tax deductions or credits at year end. By using either or both of the two Reimbursement Accounts, you can now use your **before tax** salary to pay for these expenses. By reducing your taxable income you will have a higher spendable income.

Why? Think of it this way: the purchases you make with your take-home pay are made with after-tax dollars. In other words, to buy a \$20 item, you have to earn more than \$20—maybe even \$30 or \$40 to have \$20 left over after various taxes are deducted.

DEADLINE FOR SUBMITTING CLAIMS FOR REIMBURSEMENT

An employee enrolled in the Health Care Plan can send in reimbursement claims to the FSA provider during their eligible period throughout the fiscal plan year. Employees enrolled in the Dependent Care Plan can submit for reimbursement to the FSA provider during their eligibility only upon monthly funding of the plan. Both plans must not exceed the annual election amount or established plan limit. At the end of each plan year, there is a 3 month “grace period” to submit reimbursement claims for eligible expense incurred during the plan year ending the previous fiscal year, June 30th.

REIMBURSEMENT CLAIMS MUST BE POSTMARKED BY SEPTEMBER 30th TO BE CONSIDERED VALID FOR ELIGIBLE CLAIMS INCURRED JULY 1st THROUGH JUNE 30th OF THE PREVIOUS FISCAL YEAR.

THIS IS A “USE IT OR LOSE IT” PLAN ANY UNUSED MONIES WILL BE FORFEITED!!

*Claim forms are available in “The District Connection.” Log on to the District’s intranet. Click on the INTERNET EXPLORER icon. In the address bar type: <http://home.asdk12.org> Under Departments scroll down to “Human Resources” and select “Benefits Office.” Under the “Benefits Menu” select “Flexible Spending Account.” Under “Filing Claims” select the “Medical/Dependent Care Expense Claim Form.”

The following is an example of a Reimbursement Account participant with \$3000 of eligible “Dependent Care” expenses. The chart shows that the participant would have over \$700 of additional salary to take home by using the Flexible Savings “Reimbursement” Account.

Tax Savings Using the Reimbursement Account		
	Traditional Employee	Reimbursement Account Participant
Gross Pay	\$20,000	\$20,000
Voluntary Salary Reduction (“before-tax” dollars)	<u>0</u>	<u>- 3,000</u>
Taxable Income	20,000	17,000
Estimated Taxes*	<u>- 5,130</u>	<u>- 4,361</u>
Income after Taxes	14,870	12,639
Dependent Care Expenses	<u>- 3,000</u>	<u>- 3,000</u>
Available Income Before Reimbursement	11,870	9,639
Tax-Free Reimbursement	<u>0</u>	<u>+ 3,000</u>
Available Income	\$11,870	\$12,639

The Reimbursement Account participant has a tax savings and has increased his or her take-home pay by \$769.

*Assumes federal withholding equals 15% and that state withholding equals 20% of federal withholding and social security withholdings equals 7.65%. Also assumes state, local and social security withholding are not requested on your voluntary salary reduction.

IMPORTANT NOTE: If you choose to be reimbursed for child care or health care expenses from the Reimbursement Accounts, you cannot take advantage of federal and state child care income tax credits or health care deductions for the same expenses.

It is important that you estimate your expected eligible expenses accurately, because the Internal Revenue Service has certain requirements that affect you and your Reimbursement Account. For example:

- **This is a “use it or lose it plan.”** According to IRS guidelines you will forfeit any unused amounts left over in your account at the end of the year. This rule is to prevent participants from using the plan solely as an income tax shelter.
- **Unused funds are neither transferable from one plan year to another nor available for other benefits.** The unused funds are retained by the employer.
- **Amounts reimbursed from your Reimbursement Account cannot be taken as federal income tax deductions or credits.** The reason for this is because these amounts are already being paid for with the tax-free income dollars.
- **You may not cancel or change your contribution amount** during the plan year unless you experience a “Qualifying Event” as described under “Change in Family Status:”

CHANGE IN FAMILY STATUS

You are eligible to stop your contribution(s) or change your election(s) during the plan year **ONLY IF YOU HAVE A SIGNIFICANT CHANGE IN YOUR FAMILY STATUS. THESE CHANGES ARE DEFINED BY THE IRS RULES & GUIDLINES.**

Family status changes which *may* warrant a “change in benefit election” include:

- Recent Marriage or Divorce
- Death of your spouse or dependent child
- Birth or adoption of a child

If you have questions, please call the “Benefits Department” at 742-4200. We are available Monday-Friday 8:00am 5:00pm.

Only benefit changes which are consistent with the “change in family status” are permitted and must be made within 31 days of the “change in family status.” You are responsible for notifying the Benefits Department of any change and for completing the necessary forms within 31 days.

Here are some Examples of how to use the Reimbursement Accounts:

- Anne needs to update her lens prescription in her glasses. Her health plan doesn't cover vision care. Anne deposits **before-tax** contributions into her Health Care Reimbursement Account to pay for these expenses.
- Debra's neighbor takes care of her pre-school children while she works during the day. Debra pays her neighbor with **before-tax** money she contributed to her Dependent Care Reimbursement Account.
- Joe's twin boys have both been told they will need braces this year. Joe's dental plan doesn't cover his son's orthodontia care. Joe elects to contribute **before-tax** earnings into his Health Care Reimbursement Account to make the most of his money.
- Maureen's mother had a stroke last year and now lives with her. Maureen pays for a companion to care for her mother while she is at work. With the Dependent Care Reimbursement Account, Maureen's expenses are paid for with **before-tax** dollars.

Review your expenses for health and dependent care, and you will probably find ways to make the Reimbursement Accounts work for you.

You should remember, however, that money funded into your Health Care Reimbursement Account cannot be used for Dependent Care expenses and vice versa.

Examples of Eligible Health Care Expenses

The following list identifies some of the common medical and health-related expenses that the Internal Revenue Service considers to be a deductible expense. These expenses are eligible for reimbursement through your Reimbursement Account provided you have not been reimbursed for them through any other benefit plan.

Allowable Health Care Reimbursement Account expenses include:

Acupuncture Alcoholism treatment Ambulance hire Artificial limbs and teeth Birth control pills, condoms, spermicides Braces (Orthodontics) Braille books and magazines (to the extent prices exceed prices for regular books magazines) Car (special medical equipment within) Chiropractor Christian Science practitioners Clinic Contact lenses Crutches Dentist (non-cosmetic) Dermatologist Diathermy Drugs and medical supplies Examination, physical	Eye examination Eyeglasses Fees to doctors, hospitals, etc. For: Anesthesiologist Guide dog and its upkeep Gynecologist Hearing aids and batteries HMO (co-payments) Hospital Services Insulin Iron Lung Laboratory fees Lead-based paint removal to prevent lead poisoning Legal fees to allow treatment for mental illness Lip-reading lessons Lodging for medical care	Medical information plan Mentally retarded, special home for Midwife Neurologist Nurses' expenses and board Nursing care Nursing home (if for medical reasons) Obstetrician Operations and related treatments Ophthalmologist Optometrist Osteopath, licensed Oxygen equipment Podiatrist Practical Nurse Physician-prescribed drugs and medicine Psychiatrist Psychoanalyst (Medical Care only)	Psychologist Radial Keratotomy Rental of medical equipment Sanitarium Sex therapist Special schooling for physically or mentally handicapped family member Sterilization Surgeon Telephone (for the deaf) Television equipment which displays the audio part of TV programs for the deaf Therapy Transplants Transportation expenses for essential medical care Wigs (to cover baldness due to medical reasons) X-ray
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Examples of Non-Reimbursable Health Care Expenses

- Fee for exercise, athletic or health club membership
- Weight reduction programs for general well-being
- Stop smoking programs for general well-being
- Any illegal treatment
- Dancing or ballet, even when recommended by doctor
- Cost of remedial reading classes for non-handicapped child
- Marriage counseling
- Cosmetic surgery
- Gastric by pass surgery

Effective January 1, 2011 – No reimbursement for non-prescribed over-the-counter drugs

Dependent “Day Care” Eligible Expenses Listing

An eligible dependent is any dependent that is less than 13 years old *and* your dependent under federal income tax rules. An eligible dependent may include your mentally or physically impaired spouse or a dependent that is incapable of caring for themselves. For example, you have an invalid parent, the dependent must spend at least eight hours per day in your home.

Child care services will qualify for reimbursement from the Dependent Care Reimbursement Account if they meet these requirements:

- The child must be under 13 years old *and* must be your dependent under federal tax rules
Note: If your child turns 13 during the year, you cannot stop your contribution at that time
- The services may be provided inside or outside your home, but not by someone who is your minor child or dependent for income tax purposes (for example, an older child)
- If the services are provided by a day-care facility for six or more children at the same time, it must be a qualified day-care center
- The services must be incurred to enable you, or you and your spouse if you are married, to be employed
- The amount to be reimbursed must not be greater than your spouse’s income or one-half of your income, whichever is lower
- Services must be for the physical care of the child, not for education or meals

Allowable Dependent Care Reimbursement Account expenses include payments to the following when the expenses enable you to work:

- Child care centers
- Family day care providers
- Babysitters - not your minor child or dependent for income tax purposes (for example, an older child)
- Nursery schools
- Caregivers for a disabled dependent or spouse who lives with you
- Household services, provided that a portion of these expenses are for a qualifying dependent incurred to ensure the dependent’s well-being and maintenance

Examples of Non-Reimbursable Dependent Care Expenses

- Dependent care expenses that are provided to one of your dependents by a family member, unless the family member is age 19 or over by the end of the year and will not be claimed as a dependent
- Expenses for food and clothing
- Education expenses from the first grade on
- Health care expenses for your dependents
- Overnight camps

A general rule of thumb - If you and your spouse have an adjusted gross income...

- Of less than \$20,000, the tax credit is probably more advantageous therefore the FSA would not be
- Between \$20,000 and \$27,000, the worksheet will help you determine which is more advantageous
- Of more than \$27,000, the Reimbursement Account is probably more advantageous