

FSA Users' Guide

for Participants

Types of Eligible Expenses

Three separate areas are eligible:

- **Payroll Deducted Premiums:** Your company will deduct your portion of health, dental, and vision insurance premiums from your gross salary before any taxes are figured. This benefit effectively reduces the net cost of your insurance premium.
- **Unreimbursed Health Expenses:** Healthcare expenses that are either not covered or only partially covered by your insurance plan can now be paid pre-tax. Examples include deductibles, co-pays, dental expenses (even orthodontia), vision care, and more. For more examples, please see the list enclosed in this packet.
- **Dependent Care Expenses:** Child care and elder care expenses you incur while at work or school may be deducted from your paycheck before tax. In many cases this will be more advantageous than the federal tax credit.

that will be held to explain the program. You'll use the enclosed Benefit Analysis Worksheet to estimate your unreimbursed health expenses and day care expenses.

- **Enroll:** Once you have estimated your expenses on the worksheet, you'll complete an enrollment form. Your allocated expenses will be divided into equal payroll reductions. This money is then sent to PacificSource Administrators.
- **Request reimbursements:** As you experience these costs, you simply submit a Request for Reimbursement form to us along with copies of receipts or supporting documentation. You will be reimbursed for qualified expenses directly without paying tax on that money.

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How the Plan Works

- **Attend a benefit meeting and estimate your expenses:** The IRS has several rules that govern this plan, so be sure to attend the group meeting

This guide was designed to help you understand how your Flexible Spending Account (FSA) works and how to get started using this valuable benefit.

It's Easy! Here's How:

- Read through everything in this packet to be sure you understand the features of the FSA.
- Attend your company's benefit meeting if offered.
- Complete the Benefit Analysis Worksheet.
- Complete the Enrollment Form and submit it to your human resources department.



- **Insurance Premiums:** No Request for Reimbursement is needed for this expense. Your premium will be paid directly to the insurance company from your gross salary before taxes are figured.

Questions and Answers

What are pre-tax dollars?

Pre-tax dollars are those that are set aside from your gross earnings before any taxes are computed. Because your taxable income will be lower, your taxes will also be lower. This includes federal, state (if applicable), and Social Security taxes. The end result is more spendable income for you and your family.

What are the rules and risks?

The IRS regulates FSAs, and there are several rules that apply to unreimbursed health or dependent care expenses:

- **Limit of one election per plan year.** Once you've decided on your FSA allocation for healthcare expenses, you can't change that amount until the next plan year. (There may be exceptions to this rule; please refer to your Summary Plan Description.) You may be able to change your elections for payroll deducted premiums and dependent care if you experience a qualified change in status.
- **Use it or lose it.** This rule concerns many people. If you allocate more money than you need during the plan year, any remaining money is forfeited. FSA balances do not carry over from one year to the next; therefore, it's important to be conservative in your expense estimates. This rule

shouldn't scare you away from participating in the FSA; if you use care and caution in estimating your expenses for the coming year, you'll benefit greatly from the FSA.

- **Date incurred.** Expenses must be incurred during your plan year to be eligible for reimbursement. "Incurred" means the date the service was rendered, not the date you paid the bill.
- **No "double dipping."** Expenses paid through the FSA can't also be taken as an income tax deduction.

Do I need to send receipts when requesting reimbursement?

Yes, we require documentation of expenses along with the Request for Reimbursement form. Documentation can include a copy of the medical bill or the Explanation of Benefits from your insurance company.

Be sure that the documentation includes a description of the charge, the amount, and the date of service. Unfortunately, we cannot accept canceled checks or past due notices. Please send *copies* of your documentation and keep originals for your files.

Can I participate in the FSA if I'm not on my company's health plan?

You can if you're eligible for benefits. Your employer has certain eligibility requirements for all benefits. Your human resources department can assist you.

How soon must I submit claims?

You may submit requests for reimbursement at any time during the year, and have until 90 days

after the end of the plan year to make requests.

How long does it take to be reimbursed for a healthcare expense?

If proper documentation is included, reimbursement takes about one week.

Do I have to claim any of my expenses on my year-end taxes?

Only the dependent care expenses must be reported to the IRS. This is done on the same IRS form that is used for the Dependent Care Tax Credit. Healthcare expenses that have been reimbursed through your FSA may not be claimed on your tax form.

Can I make changes during the plan year?

You may make changes to your dependent care election if you experience a qualified event (marriage, divorce, birth, death, adoption, or a change in employment for you or your spouse). Changes to the unreimbursed health expense election are allowed for a more limited set of qualifying events, and can be made only if your employer's plan allows changes. To change your election, simply complete a Change Form and submit it to your human resources department.

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What is the maximum allowable allocation for an FSA?

It varies by the type of expense. For dependent care expenses, the current maximum is \$5,000 per calendar year, or \$2,500 if married filing separately. For unreimbursed health expenses, the maximum annual election is up to your employer. There is no limit on payroll deducted premium expense allocation.

If I incur a large expense early in the plan year, before I've accrued enough through payroll reductions to cover it, will I need to wait to be reimbursed?

No, for unreimbursed health expenses, you have access to your total annual election at the beginning of the plan year. We can begin reimbursing you for eligible expenses as soon as we have received the first payroll reduction from your employer. However, dependent care expenses are handled differently; please see next question.

Questions Regarding the Dependent Care FSA

What if I submit my dependent care receipt before I've accrued enough through payroll reductions to cover that expense?

For dependent care expenses, reimbursement is available only after those funds have been payroll deducted by your employer and transmitted to us. If you have a portion of the funds available when we receive your request, we'll issue a partial reimbursement right away. We will issue a reimbursement for the balance of your request as soon as adequate funds become available.

How long does it take to be reimbursed for dependent care expenses?

Reimbursement takes about one week from the date we receive your dependent care claim, as long as those funds have already been payroll deducted by your employer and sent to us.

Can I change my election for child care mid-year?

Only if you experience a qualified change in status. This includes marriage, divorce, death, birth, adoption, or a change in employment for you or your spouse. It also includes a job shift change for you or your spouse that directly affects your child care.

Can I pay my child to watch my other kids and claim it as an eligible expense?

The IRS does not recognize payments you make to dependents who live in your home. If the childcare provider is a relative who is not a dependent, then it is eligible under your FSA. The rules that apply to your FSA are the same rules that apply to tax credits for dependent care.

Will I save more money with the dependent care FSA than by taking the tax credit?

In most cases, yes. A general rule of thumb is that if your family's taxable income puts you into the 28 percent federal tax bracket, this plan will save you more than twice what would be available through the tax credit.

Also, if you have only one child in day care and pay more than \$200 per month, the savings available through the FSA will be greater than the credit. You may deduct up to \$5,000 per year from your taxable income for dependent care



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through your FSA. We recommend that you consult with your personal tax advisor if you have more specific questions about these issues.

Additional Questions?

There are many regulations governing the Section 125 FSA program. For more information, please refer to your Summary Plan Description.

If you have any further questions about your FSA, or any of the materials in this packet, you're welcome to contact our Customer Service Department anytime. We're happy to help! Just call us at the number below or email psacustomerservice@pacificsource.com.

Tax Savings Example

The dollars you include in your FSA reduce your reportable and taxable income. Your annual contributions reduce what is reported on your W-2 tax form.

The following example shows the effect of an FSA for an employee who pays \$200/month for health insurance:

	Without FSA	With FSA
Gross salary	\$1,500	\$1,500
Pre-tax insurance	0	-\$200
Adjusted salary	\$1,500	\$1,300
Income tax	-\$450	-\$390
Net salary	\$1,050	\$910
After-tax insurance	-\$200	0
Take-home pay	\$850	\$910

By taking the insurance premium as a pre-tax payroll reduction, the employee in this example has increased their take home income by \$60 per month or \$720 this year.



Direct: 541.485.7488

Toll Free: 800.422.7038

PacificSource.com/PSA