

Welcome to

Flexible Spending Accounts

(FSAs)

Introduction to FSAs

This newsletter is to educate you on the advantages of participating in your employer's flexible spending account (FSA). An FSA is one of the easiest ways for you to save money on your taxes by allowing you to pay for eligible medical and dependent daycare expenses with tax-free money. You will have the opportunity to save 20 to 35% (depending on your tax bracket). That is like having an extra \$20 to \$35 for every \$100 you spend on these expenses that you usually pay for out-of-pocket and after taxes.

Please read this newsletter thoroughly to understand this money saving benefit and contact FlexPak, your flexible spending account provider at 1 (866) 353-9725 or flexpak@swerdlin.net with any questions.

Technically Speaking

Technically speaking, an FSA is a voluntary benefit under Internal Revenue Service Code Section 125 that allows pre-tax payroll deductions for eligible expenses. You do not pay FICA (social security taxes), federal taxes, or state taxes on the money you set aside. The tax savings will be shown by the reduced deductions for these taxes when you begin participating in the FSA. Make sure to save a paycheck stub from before you started participating to compare to your paycheck stub after you begin participating. The reduction will surprise you!



Your Medical FSA

In order to take a deduction for your out-of-pocket medical expenses on your income tax return, your costs must be greater than 7.5% of your Adjusted Gross Income. This means:

If you make ...	Your expenses must be more than ...
\$25,000	\$1,875
\$45,000	\$3,375
\$75,000	\$5,625

Only the amount OVER 7.5% is deductible. Most of us do not have expenses this large. The Medical FSA allows you to make ALL of your medical expenses "tax-deductible." You can pay for everyday medical expenses incurred by you, your spouse or any of your dependents with pre-tax money. Any medical expenses not covered by insurance are covered, including:

- Prescription drugs
- Non-medicine over-the-counter items, such as bandages, contact lens solution, crutches, diagnostic devices
- Dentistry and orthodontics
- Glasses and/or contacts
- Chiropractic services
- Psychiatry and psychology fees

For a more complete list of eligible expenses, please see the *List of Eligible Expenses for Medical FSAs*.

Your Medical FSA election is limited to a maximum amount set by your employer each year. You save on taxes for the amount you elect because it comes out of your paycheck before taxes are calculated. See the chart below to get an idea of what your savings will be.

With a Medical FSA, you can get your money even before it is in your account. A Medical FSA is a pre-funded account, meaning the election you make is available to you from the first day of your plan year. For example: If you elect \$1,300 to your Medical FSA, \$50 will be deducted on a pre-tax basis from each of your paychecks. If, in the first few months of your plan year, your son falls from his bike, breaks his arm, and must go to the hospital (totaling \$950), although you may only have \$400 in your account when the accident occurs, you can submit your expenses for immediate repayment of the full \$950! With a Medical FSA, you can get cash now against the total amount you will pay into the account by the end of the year.

if you elect...	you have the potential to save...
\$250	\$50 to \$88
\$500	\$100 to \$125
\$750	\$150 to \$263
\$1,000	\$200 to \$350
\$1,500	\$300 to \$525
\$2,000	\$400 to \$700
\$2,500	\$500 to \$875

Your Dependent Daycare FSA

The Dependent Daycare FSA allows you to pay for the costs of a qualified caregiver who provides services while you are at work. This includes daycare for your children or a home health aide looking after your disabled spouse or dependent parent.

In order to qualify for this benefit, you and your spouse must:

- Work full-time,
- Attend school full-time, or
- Be actively searching for full-time employment

Expenses that are eligible for reimbursement include:

- Nursery or daycare expenses and
- Before and after-school care

For a more complete list of eligible expenses, please see the *List of Eligible Expenses for Dependent Daycare FSAs*.

The Dependent Daycare FSA is limited to an annual election of \$5,000 per CALENDAR YEAR. You save on taxes for the amount you elect because it comes out of your paycheck before taxes are calculated. Your savings will depend on your tax bracket. See the chart below for an idea of what your savings will be. When you have both a Medical and Dependent Daycare FSA, your savings really add up!

if you elect...	you have the potential to save...
\$3,000	\$600 to \$1,050
\$3,500	\$700 to \$1,225
\$4,000	\$800 to \$1,000
\$4,500	\$900 to \$1,575
\$5,000	\$1,000 to \$1,750

Rules & Restrictions

Since this is a tax savings benefit to you, there are some rules and restrictions of which you should be aware set by the IRS in Code Section 125, the law that governs FSAs.

Use-It-Or-Lose-It

You forfeit any unused funds in your FSA(s) at the end of your plan year and any applicable grace periods. For example, you elected \$2,500 for the plan year. At the end of the year, you still have \$500 remaining and have no more eligible expenses to claim. You will forfeit the \$500 to the plan.

In most cases, the tax savings you receive are greater than your loss. For example, if you are in the 25% tax bracket and redirect \$2,500 into your FSA, your tax savings are \$625. If you forfeit \$500, you still come out ahead!

The key to the Use-It-Or-Lose-It rule is to plan. Only redirect what you know you will use throughout the year. Use the How Much Will You Save? worksheet to determine what amount is best to elect.

Unlike Medical FSAs, a Dependent Daycare FSA is not pre-funded, meaning you can only get the money out that you've paid into the account as of the date you submit the claim. For example: If you elect \$5,000 to your Dependent Daycare FSA for the year, \$192.30 will be deducted on a pre-tax basis from each of your paychecks. At the end of the first month of your plan year, your daycare expenses total \$500. You submit a claim form with your receipt showing you've paid \$500 for the month. You will be reimbursed \$384.60 since you have only had two payroll deductions so far. Your next paycheck will redirect another \$192.30 to your Dependent Daycare FSA. FlexPak will automatically reimburse you \$115.40 without having to turn in a claim form.

Original Claim	\$500.00
Amount Reimbursed Based on Available Funds In Your Dependent Daycare FSA	\$ 384.60
Outstanding Claim	\$ 115.40
Next Paycheck Redirection To Your Dependent Daycare FSA	\$ 192.30
Automatic Reimbursement	\$ 115.40

If you pay for daycare, you are able to take a tax credit when you file your income tax return. For some individuals, the tax credit offers more of a benefit than participating in a Dependent Daycare FSA and vice versa. Please see the Dependent Tax Credit vs. Dependent Daycare FSA form to help you determine which would be most advantageous for you. If you are still unsure after reviewing this form, we recommend consulting a tax accountant.

Changing Your Election

Once you make your election, you cannot change it throughout the year unless you have a valid change in status. A change in status includes marriage, divorce, a birth (or death) of a dependent, or a change in employment status.

Transferring Money

You cannot transfer money from your Medical FSA to your Dependent Daycare FSA and vice versa.

Social Security Benefit

Your social security benefit is calculated based on your taxable income. In most all cases, your savings today are far greater than a slight reduction in your benefit. If this is a concern for you, you may want to seek the advice of a tax accountant.

Cafeteria Plan Operating Year

Any expenses that you submit for reimbursement MUST fall during your plan's operating year (please see the front page of your Enrollment Kit for information regarding your plan year.)