



# *Flexible Spending Accounts*

***“Cafeteria Plans” Offer a Large Menu of Benefit Options to Employees***

## ***What Are FSAs?***

Flexible Spending Accounts (FSAs), commonly referred to as “Section 125” plans or “Cafeteria Plans”, were developed as part of Internal Revenue Code Section 125 to provide employees with tax relief for their un-reimbursed medical, dependent day-care costs and mass transit and parking expenses. FSAs enable employees to utilize pre-tax dollars and save Federal, FICA and, in most cases, state taxes when paying for eligible expenses not covered by traditional insurance plans.

## ***FSA Types***

**There are three types of Flexible Spending Accounts:**

**Medical Reimbursement Accounts:** Accounts used to pay for eligible un-reimbursed medical expenses such as co-pays, deductibles, dental, vision, prescription, over-the-counter drugs (see 2011 OTC addendum), and more.

**Dependent Day-Care Reimbursement Accounts:** Accounts used to pay expenses for the daily care of an eligible child or adult dependent such as day-care, licensed nursery schools, before and after school care and care provided to an elderly relative living with you.

**Commuter Reimbursement Accounts:** Accounts used to pay for eligible mass transit transportation and parking expenses such as transit pass, commuter parking and van-pool.

## ***Paypro Benefits MasterCard®***

To further enhance the benefits of implementing FSAs, Paypro offers the Paypro Benefits Convenience MasterCard®. This single-platform debit card allows for the automatic electronic transfer of pre-tax dollars from an FSA when paying for qualified expenses. Most importantly, the Paypro Benefits Convenience MasterCard® can accommodate and administer all three accounts on the same card.



## ***Why Choose FSAs?***

If you have expenses that are not covered under your medical plan, the need for a dependent care account, or mass transit commuting expenses, participation in the plan could be a tax savings for you.

## ***Remember...***

Please keep in mind that any Health Care or Dependent Care funds not used in the plan year will be forfeited and you will have a grace period after the end of the plan year in which to submit all of your claims.



***Contact your HR/Payroll Department to find out how you can enroll!!***



## How the AmeriFlex Plan Works

If you participate, you will elect to have a specified amount of “pre-tax” money deducted from your paycheck each pay period. These dollars are subtracted from your gross earnings before taxes and put into a Flexible Spending Account to cover eligible out-of-pocket costs. Once you submit a claim for a qualified expense, you will be reimbursed from this account.

- Lower your taxable income; pay less tax; increase your take-home pay.
- Participation is the equivalent of getting a raise.

The following table illustrates how you save by participating in a Flexible Spending Account:

### Without This Plan

Gross pay (annual)	<b>\$30,000.00</b>
Tax Withholding (est. @25%)	<b>\$ 7,500.00</b>
Take-home pay	<b>\$22,500.00</b>
• Eligible expense	<b>\$ 1,000.00</b>
New take-home pay	<b>\$21,500.00</b>

### With This Plan

Gross pay (annual)	<b>\$30,000.00</b>
• Eligible expense	<b>\$ 1,000.00</b>
Taxable income	<b>\$29,000.00</b>
Tax Withholding (est. @25%)	<b>\$ 7,250.00</b>
New take-home pay	<b>\$21,750.00</b>
• Result (increased take-home pay)	<b>\$ 250.00</b>

The information in this table is for descriptive purposes only and is not intended to reflect your own personal tax situation.



## Eligible Expenses

### Medical Spending Account Eligible Expenses

A medical FSA is used to pay for healthcare expenses not covered under your medical or other insurance plan. The IRS determines eligible expenses. IRS-qualified expenses may include:

- Co-pays, deductibles, and other payments you are responsible for under your medical plan
- Charges that may not be covered by your medical plan such as:
  - Routine exams
  - Dental care
  - Orthodontia  
(check with your Employer to determine if Orthodontia is allowed in your plan and what reimbursement method is used)
  - Eyecare: Lasik, glasses, contact lenses
  - Hearing aids
  - Well-baby care
- Miscellaneous expenses such as:
  - Many over-the-counter drugs; e.g., pain relief, sleep aids, allergy treatments
  - Transportation, tolls, and parking to receive medical care
  - Individual psychiatric or psychological counseling
  - Diabetic equipment and supplies
  - Durable medical equipment
  - Qualified medical products or services prescribed by a doctor

Some examples of ineligible expenses include insurance premiums, teeth whitening, prescription drugs for male-pattern baldness, and most cosmetic procedures. A more comprehensive list of [eligible medical and over-the-counter expenses](#) is available on the AmeriFlex website.

## Dependent Day Care Spending Account Eligible Expenses

With a Dependent Day Care Account, you can set aside pre-tax payroll deductions to reimburse the expenses associated with day care for your qualified dependents. Eligible expenses must meet the following qualifications:

- The care of the dependent must enable you and your spouse to be employed.
- The amount to be reimbursed must not be greater than your spouse's income or your income, whichever is less.
- The child must be under 13 years old and must be your dependent under federal tax rules.
- The services may be provided in your home or another location, but not by someone who is your minor child or dependent for income tax purposes (e.g., an older child)
- If the services are provided by a day care facility that cares for six or more children simultaneously, the facility must comply with state and local day care regulations.
- Services must be for the physical care of the child, not for education, meals, etc.

Qualified dependent care expenses also include costs for the care of a spouse or other adult dependent who lives in your home and is incapable of self-care, has gross income below the exemption amount in IRS Code 151, is dependent on you for over half of their support, and is not anyone else's qualifying child (e.g., an invalid parent). The same rules that apply for child care apply to the care of other dependents, except the dependent need not be under age 13.

For more details on dependent day care eligible expenses, reference [IRS Publication 503—Child and Dependent Care Expenses](#), available on the AmeriFlex website.

## Commuter Reimbursement Account Eligible Expenses

Commuter Reimbursement Accounts allow for the pre-taxing of qualified parking, transit, and commuter highway vehicle expenses related to your transportation to and from work.

- Parking expenses are expenses incurred to park your vehicle on or near the business premises of the employer or expenses incurred to park your car at a location from which you commute to work by (a) mass transit facilities, (b) a commuter highway vehicle, or (c) car-pool.
- Transit expenses are those incurred for a pass, token, fare card, voucher, or similar item (a pass) for transportation (a) on mass transit facilities, whether or not publicly owned, or (b) provided by a person in the business of transporting persons for compensation or hire if such transportation is provided in a vehicle with a seating capacity of at least six adults (excluding the driver).
- Commuter highway vehicle (van-pool) expenses are those incurred for transportation in a commuter highway vehicle when traveling between your residence and place of employment. A commuter highway vehicle is any highway vehicle with a seating capacity of at least six adults (not including the driver), and for which at least 80% of the mileage is for purposes of transporting employees between their residence and their places of employment, and where the number of employees is, on average, at least half of the adult seating capacity of the vehicle (not including the driver).



## Funding Your Account

The maximum amount you can contribute to your FSA depends on the type of account you select. Your employer determines the maximum annual election for your Medical Flexible Spending Account while the government sets the maximum amount for your Dependent Day Care Spending Account and Commuter Reimbursement Account.

### Determining Account Contributions

- **Medical:** Your employer determines the maximum allowable contribution for your Medical Flexible Spending Account. Within that maximum, you determine your contribution for yourself and your eligible dependents based on expenses you expect to incur in the upcoming plan year. Your annual contribution is then divided by your number of pay periods, and that amount will be deducted pre-tax each pay period.
- **Dependent Day Care:** Federal law has set the maximum allowable contribution per calendar year for a Dependent Day Care Spending Account as follows:
  - \$5,000 for a married couple filing jointly
  - \$5,000 for a single parent
  - \$2,500 for a married person filing separately

**NOTE:** While most employers follow the IRS limit for dependent day care plans, some have selected a lower annual maximum benefit. You should check with your employer to determine the limit for your dependent day care plan.

- **Commuter:** The maximum amount you may contribute to a Commuter Reimbursement Account is determined by the IRS. These amounts may change annually, so ask your employer for current maximums for parking expenses, transit passes, and commuter highway vehicle expenses.

### The Use-It-or-Lose-It Rule

If you contribute dollars to a reimbursement account and do not use all the money you deposit, you will lose any remaining balance in the account at the end of the eligible claims period. A very important thing to remember is that the rule exists because the IRS has established strict guidelines for plans with tax advantages.



## Claims Process

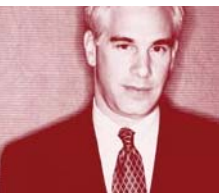
To be reimbursed for any expense, you must first file a claim. You can file a claim in two ways, either manually or electronically. To file a claim manually, simply complete a claim form and mail or fax it to AmeriFlex along with substantiation of the claim. Acceptable forms of substantiation include itemized receipts and the Explanation of Benefits (EOB) from your insurance carrier.

Information required on all claim requests include: the date of service, the product or service description, prescription drug names and numbers, the total dollar amount being requested, the service provider's name, and, in the case of dependent day care requests, the provider's signature and tax ID or Social Security number.

When you submit a claim by fax or mail, your reimbursement will either be mailed or direct-deposited into your bank account, whichever you prefer. To eliminate the hassles of paper, faxing, and the time delays of mailing, simply use your AmeriFlex Convenience Card®.



SMART  
SIMPLE  
and Convenient



## The AmeriFlex Convenience Card®

The AmeriFlex Convenience Card® is a MasterCard® debit card providing electronic access to your FSA funds. The card provides the convenience of a single debit card with access to all of your accounts.

Your AmeriFlex Convenience Card® gives you easy access to the funds in your Flexible Spending Account(s). It works just like any other debit card, but with three important differences:

- First, its use is limited to specific merchants\* and to expenses deemed eligible by your plan.
- Second, you cannot use it at an ATM or to obtain “cash back” when making a purchase.
- Third, you are not given a PIN with this card. Should a merchant or provider ask you for a PIN, simply explain that this card does not require one. If given the option between debit and credit at the terminal, choose “credit.”

\*Every merchant that accepts MasterCard® is assigned an MCC Code based on their type of business. Only a limited number of these codes apply to merchants providing products or services eligible for FSAs. Use of the AmeriFlex Convenience Card® is limited to day care providers; medical care providers such as hospitals, doctors’ offices, optometrists, dentists, orthodontists, pharmacies, or other merchants providing prescription and over-the-counter eligible products; and CRA merchants such as parking garages or metro-card machines. In other words, your card cannot be used at non-qualified businesses such as gas stations, retailers, convenience stores, etc. For example: aspirin is an eligible expense in your Medical Flexible Spending account; however, you cannot purchase aspirin at your local convenience store because that type of business does not have an eligible MCC code. You would need to purchase your aspirin at your local pharmacy or other qualifying business to use the card. However, under new regulations, if the merchant has an IRS approved inventory management system that provides SKU level data on the item, it can automatically determine if an expense is eligible, eliminating the MCC code restriction. Check with your local retailer to find out if they already have or may be adding this system.

## Your Card Account Balance and Transaction Receipts

- What if there's not enough money in my account?

If you charge more than the available balance in your account, the transaction will be denied. You can find your balance online at [www.flex125.com](http://www.flex125.com) or by calling the AmeriFlex Interactive Voice Response System, which is available 24/7. Review your account balance regularly to avoid denied charges.

- Do I need the receipts?

Possibly, so please save all of your itemized receipts! For certain expenses, AmeriFlex may need additional information, including receipts, to verify eligibility of the expense and to comply with IRS rules. That's why it's important for you to save all receipts, then fax or mail them promptly if requested. Failure to comply could jeopardize the tax-exempt status of your account and cause the card to be deactivated.

## FSA Election Changes

### What if I want to make a change to my FSA Election?

The latest set of cafeteria plan regulations develops a process for determining if a participant is allowed to make a change in election during the plan year. A change in status must have occurred and that event must fall into one of the following categories:

- Change in provider (Dependent Day Care only)
- Change in cost of day care (Dependent Day Care only)
- Change in legal marital status
- Change in number of dependents
- Change in employment status
- Change in work schedule (increase or decrease in hours)
- Dependent satisfies (or ceases to satisfy) requirements for eligibility

The election change must be consistent with the status-change event. A change is consistent with the event for Medical Flexible Spending Accounts if the following occurs:

- The employee, spouse, or dependent is gaining or losing eligibility for health coverage.
- The election change corresponds with that gain or loss of coverage.

For Commuter Reimbursement Accounts, elections can be made for a period as short as one month. Check with your human resources department to see how often you can change your CRA election.

### Employee Termination/Claims Procedure

AmeriFlex will deactivate the terminated employee's AmeriFlex Convenience Card® on the date notified of the termination. Any eligible expenses incurred, and not yet submitted for reimbursement, prior to or on the date of termination, must be filed using a manual claim form and must be received by AmeriFlex within 90 days of the termination date.







## Tax Implications

### Will pre-taxing have an impact on Social Security benefits?

Reductions in your taxable pay may lead to a reduction in Social Security benefits; however, for most employees, the reduction in Social Security benefits is insignificant when compared to the value of paying lower taxes now.

### Dependent Day Care Tax Filing

On your tax return you must report the correct name, address, and taxpayer identification number (TIN) of your dependent care provider. If your dependent care provider is exempt from federal income taxation, you are not required to report the TIN; however, you must report the correct name and address of the exempt provider and write "tax-exempt" in the space provided for the TIN.

### Tax Credits vs. Dependent Care Spending Accounts

If you participate in a Dependent Care Spending Account, you cannot claim credits on your income tax return for the same expenses. Also, any amount reimbursed under this plan will reduce the amount of other dependent care expenses that you can claim for purposes of tax credits. Before you enroll in a Dependent Day Care Account, evaluate whether the federal income tax credit or the Dependent Care Spending Account is best for you. Refer to the following federal tax forms and publications for more information (available at [www.irs.gov](http://www.irs.gov)):

- [Form 2441](#) (Child and Dependent Care Expenses)
- [Form 1040 Schedule EIC and IRS Publication 596](#) (Earned Income Credit)
- [Form 8812 and IRS Publication 972](#) (Child Tax Credit)
- [Frequently Asked Questions](#)

# CHANGES TO OTC Rules

## OVERVIEW / NEW IN 2011



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### Background:

On March 23, 2010, President Barack Obama signed into law a massive piece of legislation aimed at reforming the nation's health care system. The new law, called the Patient Protection and Affordable Care Act (PPACA), contains numerous provisions, many of which will not go into effect for several years. An important part of the law, however, will go into effect on January 1, 2011. This particular provision changes how health flexible spending account (FSA), health savings account (HSA), and health reimbursement account (HRA) participants are reimbursed for certain types of over-the-counter (OTC) health care expenses. The following is a brief overview of the changes that will occur effective 1/1/2011. **Click here** <[http://www.flex125.com/af\\_site/company\\_info/forms/OTC\\_FAQ.pdf](http://www.flex125.com/af_site/company_info/forms/OTC_FAQ.pdf)> for a more detailed FAQ.

### Summary of the new OTC law:

PPACA mandates that expenses incurred for OTC medicines and drugs (with the exception of insulin) will not be eligible for reimbursement under a health FSA or HRA unless you have a prescription.

### Effective date:

The new OTC law will apply to all purchases made on or after January 1, 2011. The new law will apply to the tax year, not the plan year. This means that even if your plan year starts in November 2010, the rule will still apply to you (and everyone else) beginning January 1.

### New claims reimbursement procedure:

Up until now, participants could use their AmeriFlex Convenience Card to pay for eligible health care expenses at a pharmacy or drug store, using funds from their health FSA or HRA.

Effective January 1, you will no longer be able to use your FSA/HRA debit card to pay for over-the-counter medicines and drugs, and you will need to obtain a prescription in order to receive reimbursement from your FSA/HRA for these items. That means that you will have to pay for these items out-of-pocket, and then file a manual claim along with a prescription in order to be reimbursed from your FSA or HRA.

### What is considered an OTC "medicine or drug"?

The IRS did not provide specific guidance regarding what is to be considered a medicine or drug under this new law. Nevertheless, at this time we can be reasonably certain that certain categories of items will be considered medicines/drugs and therefore will require a prescription effective January 1, 2011 in order to receive reimbursement from an FSA or HRA. These include: allergy and sinus medications; cough, cold and flu medications; digestive aids; pain relievers; sleep aids; and stomach remedies. **Click here** <[http://www.flex125.com/af\\_site/company\\_info/forms/OTC\\_FAQ.pdf](http://www.flex125.com/af_site/company_info/forms/OTC_FAQ.pdf)> for a more detailed list.

### When can I use my FSA/HRA debit card?

The good news is, you will still be able to use your FSA/HRA debit card for many common health care expenses that are not considered OTC medicines and drugs under the new law. These include: Band Aids; diabetic testing and aids; eye care and contact lens supplies; first aid supplies; insulin and diabetic supplies; reading glasses; and thermometers. **Click here** <[http://www.flex125.com/af\\_site/company\\_info/forms/OTC\\_FAQ.pdf](http://www.flex125.com/af_site/company_info/forms/OTC_FAQ.pdf)> for a more detailed list.

And remember, regular prescriptions will not be subject to this rule, so you will still be able to pay for your prescription drugs with your AmeriFlex Convenience Card® just as you have in the past. You will also be able to use your AmeriFlex Convenience Card for doctor and hospital visits, as well as dental and vision care, provided such items are covered under your plan(s).

### We are here to help:

Please feel free to contact us with any questions or concerns that you may have.

**888.868.FLEX (3539) | [www.flex125.com](http://www.flex125.com)**

OTC  
2011