



## 2011 Flexible Spending Accounts – Medical and Dependent Care Accounts

Through HealthFlex, actively working participants have the option to elect to contribute a part of their compensation to tax-advantaged (pre-tax) flexible spending accounts (FSAs)—one for medical care expenses (the Medical Reimbursement Account, MRA) and one for dependent day care expenses (the Dependent Care Account, DCA).

If you elect to participate in the MRA or DCA, you may contribute part of your compensation, i.e., set aside funds, on a before-tax basis<sup>1</sup> to reimburse yourself for certain eligible medical care and dependent care expenses.

Flexible spending accounts can save you significant amounts on the cost of health care and dependent day care by allowing you to pay for qualified expenses on a pre-tax basis. However, the funds you set aside in flexible spending accounts are subject to certain restrictions in their use, as explained below, and are subject to the “use it or lose it” rule. Please be sure you understand all the implications of those rules by carefully reading this entire document.

When you elect to contribute to the MRA or DCA, you are choosing to contribute that amount over the applicable plan year—which is a calendar year—not a conference or appointment year. If you enroll in the plan mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the calendar year.

### The Medical Reimbursement Account (MRA)

If you elect an MRA, you can elect to set aside part of your compensation on a before-tax basis<sup>1</sup> to reimburse yourself for certain eligible medical care expenses that are not otherwise reimbursed or reimbursable from the group health plan component of HealthFlex or from some other source.

With an MRA, you may submit for reimbursement certain eligible out-of-pocket medical, pharmacy, dental and vision expenses incurred over the course of the plan year. You also may submit for reimbursement through the MRA certain expenses incurred by your spouse or dependent children (even for qualified expenses for qualified dependents not covered under the HealthFlex medical plan). In addition, if you have a doctor’s order, certain expenses for over-the-counter medications and medical supplies are reimbursable through the MRA.

To get an idea of the amount you may want to set aside in an MRA, begin with last year’s medical, dental and vision bills. Will any of these recur? If so, add them to your estimate. You may then want to consider what types of expenses you can anticipate for the coming year, such as new eyeglasses, any co-payments or deductibles under the medical benefit option you elect. This will help you to estimate the amount of your compensation that you may want to set aside into an MRA. For further information regarding eligible expenses, please call Ceridian at 1-877-799-8820 or visit the website at [www.ceridian-benefits.com](http://www.ceridian-benefits.com).

**Note:** Ceridian, your flexible spending account administrator, refers to the Medical Reimbursement Account as the Health Care Flexible Spending Account.

It is relatively easy to estimate your expenses for an MRA since you probably already know the cost of many services in advance. You may set aside \$300 to \$5,000 per calendar year.

**New for 2011:** The following changes—effective January 1, 2011—may affect your 2011 MRA contribution.

- Some preventive care services are covered 100% by HealthFlex, without requiring you to pay a deductible, co-insurance or a co-payment. This includes one routine well visit per year over the age of 2 and certain age-appropriate immunizations and diagnostic screenings. See the benefit summary for coverage details.
- Over-the-counter medications are not eligible for FSA reimbursement without a doctor’s prescription.

<sup>1</sup> Salary reduction contributions are not subject to federal income tax or FICA tax withholdings. In some cases, salary reduction contributions may not be subject to certain state and local tax withholdings. Consult with your tax adviser and plan sponsor.

## **The Dependent Care Account (DCA)**

If you elect a DCA, you may elect to set aside part of your compensation on a before-tax basis<sup>1</sup> to reimburse yourself for certain eligible dependent day care expenses (even for qualified expenses for qualified dependents not covered under the HealthFlex medical plan).

With a DCA, you may submit for reimbursement certain expenses incurred for care of your dependents to enable you and your spouse to be gainfully employed. Dependent day care expenses may include expenses for summer day camp, babysitting services while you work, or a day care center for children or dependent adults.

If you incur dependent day care expenses for your dependent children (age 12 and younger) or for your spouse or other dependents who are physically or mentally incapable of self-care, you may be reimbursed for certain eligible dependent day care expenses under the DCA.

Make sure to keep track of your dependent day care expenses and the provider's name, address and tax identification number (Social Security Number if it is a home provider). In addition to submitting this information to Ceridian to request your reimbursement, you may want to save a copy of this information for reference when you prepare your tax return.

## **Dependent Care Account Election Limits**

In a calendar year, the amount an employee can exclude from his or her income through salary deferrals to the DCA is limited to the smallest of the following:

1. \$5,000 (\$2,500 if the employee is married, but filing separately);
2. the employee's earned income if less than \$5,000; or
3. the spouse's earned income if the employee is married at the end of the taxable year.

If the employee is married and his or her spouse is either a full-time student or incapable of self-care and has no earned income, the spouse is deemed to have an earned income of \$250 per month (\$500 per month if there are two or more qualifying individuals) in each month that the spouse is either a full-time student or incapable of self-care.

## **The Use It or Lose It Rule**

Your MRA and DCA account balances cannot carry over from one calendar year to the next. This prohibition is known as the "use it or lose it" rule. You do have a run-out period during which you may submit claims for reimbursement from FSA accounts incurred during the plan year. For the 2011 plan year, you will have until **April 30, 2012** to submit all eligible claims.<sup>2</sup> Claims submitted after the run-out period deadline will not be reimbursed. All amounts remaining in MRA and DCA accounts after the end of the applicable run-out period are forfeited due to the Internal Revenue Service (IRS) "use it or lose it" rule. HealthFlex uses such forfeitures to offset the administrative expenses of the program.

## **Special Rule for Those Who Retire or Cease Working**

Keep in mind that a different rule for run-out claims will apply to you if you cease working during the plan year. This can be on account of retirement, termination of employment or a leave of absence. When you stop working, your coverage under the MRA and DCA ceases immediately. Only eligible expenses incurred before you stop working may be reimbursed from your MRA or DCA. Expenses incurred after your termination date are not reimbursable. Also, you will have a different run-out period if your coverage terminates during the plan year; you have only **90 days** after the date your coverage ends to submit claims for eligible expenses incurred before your termination date.

## **Grace Period**

HealthFlex has established a grace period for the MRA as permitted by the Internal Revenue Service. The grace period will be the 2½-month period immediately following the end of the plan year. MRA expenses incurred during this grace period (i.e., expenses for health care services received from January 1 to March 15 of the year that immediately follows the end of the plan year) may be reimbursed from the previous (just-ended) plan year's MRA balance, if any, or from the current year's balance.<sup>2</sup>

<sup>2</sup> If you purchased an over-the-counter drug without a doctor's prescription after December 31, 2010, the purchase may not be reimbursed from your 2010 FSA funds. For example, Participant A has \$1,000 remaining in an MRA as of December 31, 2010. His entire 2010 balance of \$1,000 is available for expenses incurred between January 1, 2011 and March 15, 2011, but cannot be applied to over-the-counter medicines purchased in 2011 during the grace period without a doctor's prescription.

Prior to this rule change, participants could only request reimbursement for expenses that were incurred during the plan year (i.e., by December 31). Now, you have another 75 days after the end of a plan year to incur health-related claims and seek reimbursement, thus helping you “use” your MRA balance rather than “lose” it.

For the 2011 plan year, expenses incurred during the grace period from January 1, 2012, until March 15, 2012 may be reimbursed from your 2011 MRA if it has a positive balance. Otherwise they will be reimbursed from your 2012 MRA balance, if any.

In addition, the grace period will run concurrently with the run-out period described above. That means that after the end of the grace period on March 15, 2012, you will have only until April 30, 2012 to submit any and all MRA claims incurred from January 1, 2011 through March 15, 2012 for reimbursement from the 2011 plan year MRA funds. Any claims submitted after April 30, 2012 that were incurred during this time period will not be reimbursed from the 2011 plan year MRA funds. Eligible claims incurred during the grace period but submitted after April 30, 2012 will be reimbursed from 2012 plan year MRA funds, if any.

You must be an active MRA participant as of the last day of the plan year in order to take advantage of the grace period for that plan year. If your coverage ends during the plan year, you must seek reimbursement of eligible claims within 90 days of termination, and you are not eligible for the grace period. It is important to remember that you can still forfeit MRA funds if you do not incur enough expenses during the plan year and the grace period to exhaust your MRA election.

**Important:** The grace period does not apply to the DCA. All claims under your DCA must be incurred during the applicable plan (calendar) year (i.e., by December 31) and you must submit them for reimbursement no later than **April 30, 2012**.

### **Helpful Reminders When Using Your MRA and DCA Accounts**

1. HealthFlex requires that you affirmatively elect an FSA during the Annual Election period in November or when you join HealthFlex and elect the amount of funds you wish to set aside prior to each plan year. **If you make no election, your FSA elections will be zero.**
2. Provided that you remain eligible to have an MRA under the plan, the total annual amount that you elected to contribute for the plan year is available at any time during the plan year (reduced by the amount of prior MRA reimbursements paid to you during the plan year).
3. When you incur an expense eligible for DCA reimbursement, submit a separate claim form to Ceridian, along with proof of payment and the provider’s tax identification number. Unlike the MRA, the amount of DCA reimbursement available at any time during the plan year is limited to the amount credited to your DCA (reduced by the amount of prior DCA reimbursements paid to you during the plan year).
4. To be considered for reimbursement, you must incur the expenses during the plan year (or during the grace period for MRA claims) for which your FSA elections are effective. Expenses are considered incurred when services are performed, not when payment is made (subject to certain exceptions for orthodontia and eyeglasses).
5. As of December 31 of any plan year, if you are an active participant in HealthFlex and you have a positive balance in your MRA, you can incur claims for eligible health care expenses for an additional time period from January 1 to March 15 immediately following the end of that plan year. Those eligible claims may be reimbursed from the MRA balance from the plan year that has just ended. This extra time to incur claims is called the “grace period” and it applies only to the MRA; it does not apply to the DCA. You have until **April 30, 2012** to submit MRA and DCA claims for reimbursement from the 2011 plan year.

After April 30, 2012, you will forfeit any 2011 MRA and DCA fund balances remaining in these accounts. The amount you elect to contribute to each account is for a calendar year, not a conference or appointment year. If you enroll in the plan mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the calendar year. **If you terminate from HealthFlex prior to the end of the plan year (e.g., retiring, terminating employment or leave of absence), you have 90 days from your date of termination to submit all claims you incurred while you were a participant (i.e., before your date of termination).**

6. Funds cannot be transferred between the MRA and DCA. Estimate your expenses so that you do not contribute more than you need. IRS regulations require that any funds remaining in your account at the end of the 2011 plan year's run-out period (i.e., April 30, 2012) be forfeited.
7. The plan administrator uses all amounts forfeited from participant DCA and MRA accounts to offset the administrative costs of the plan.
8. Normally, you cannot change the amount that you elected to set aside in your reimbursement accounts during the plan year. The terms of the plan allow you to generally set aside between \$300 and \$5,000 to each type of account, to be deducted from your salary/paycheck in prorated amounts throughout the plan year. However, under limited circumstances, certain events, called change of status events (such as marriage or birth of a child), may allow you to make certain election changes during the plan year. Please contact the plan administrator or your plan sponsor for more information about change of status events.
9. If you become ineligible to participate in the MRA or DCA (for any reason, including retirement) during the plan year, expenses incurred after your loss of such eligibility are not eligible for MRA or DCA reimbursement.

**Important:** There are important tax implications associated with electing to defer compensation to an MRA and DCA. Individuals should consult with their legal, accounting, tax and other advisers before electing to participate in the MRA or DCA.

Salary reduction contributions will reduce your compensation for Social Security tax purposes. This means that your Social Security benefits could be decreased because of the decreased amount of compensation, which is considered for Social Security purposes.

For more information and copies of the reimbursement request forms, check the Ceridian website at **[www.ceridian-benefits.com](http://www.ceridian-benefits.com)**. This publication serves to provide you with general information regarding the MRA and DCA programs. The actual terms and conditions of the programs are contained in the programs' Plan Document, Summary Plan Description and the HealthFlex Benefit Booklet (collectively, the "Documents") maintained by the General Board of Pension and Health Benefits. If there is a conflict between the information contained in this publication and the Documents, the terms of the Documents shall control. The General Board reserves the right to amend, modify or terminate part or all of the programs at any time and the General Board does not make any commitment or guarantee that program contributions or benefits will be excludable from an individual's gross income for federal, state or local tax purposes.