

## Flexible Spending Account

### INTRODUCTION

The health and welfare of you and your family is important to the Medical College of Georgia, and we recognize that safeguarding both is frequently a difficult and expensive task. Single parents and families with both spouses working outside the home often have significant dependent care expenses, and in spite of your health and dental insurance benefits, many of you may still incur a variety of health and dental care expenses which are not covered by your insurance plan.

To assist you with these types of expenses, we are offering you the opportunity to participate in the Medical College of Georgia's Flexible Spending Account Plans for Dependent Care and Unreimbursed Health Care. These spending account plans allow you to pay for those dependent and/or health care expenses with before-tax dollars.

Under a spending account arrangement, you make contributions to the account from your salary each pay period -- before payroll taxes are computed -- and are then reimbursed for eligible expenses from your Flexible Spending Account(s) as you present your claims for payment.

We have written this booklet with as few technical terms as possible, so that you will be aware of your rights and benefits. Every effort has been made to make the booklet as complete and accurate as possible. However, if any conflict should arise between this booklet and the Plans, the terms of the Plans will govern.

The Medical College of Georgia's Division of Human Resources will be happy to provide you with any additional information so that you will have a complete understanding of the benefits to which you are entitled.

It bears repeating that the money you deposit in the spending accounts is deducted from your pay before taxes are taken out. You do not pay Federal income, Georgia income or Social Security taxes on this money before it goes into your account. By paying for certain health and/or day care expenses through the spending accounts, you can lower your taxable income and, most likely, your income taxes.

### How The Accounts Work

You decide if you want to use the Dependent and/or Unreimbursed Health Care Account. This is how the accounts work:

- You estimate the amount you will spend on eligible expenses for the calendar year.
- You decide how much to deposit into each account per pay period. Each account is separate, and money cannot be transferred from one account to the other.
- When you have an eligible expense, you pay it. Then you submit your claim form to the Medical College of Georgia Benefits Department, located in Annex building 1 room 1111, for reimbursement from the appropriate account.

- You are reimbursed within three to five working days for eligible expenses with the money you deposited in your Dependent and/or Unreimbursed Health Care Account.

### **Effective Date**

The Medical College of Georgia's Flexible Dependent Care Plan was implemented on January 1, 1991 and Health Care Spending Account Plan was implemented on January 1, 2003. The plan year covers a period of 12 months beginning on January 1st and ending on December 31st of each year.

### **Eligibility and Elections**

All regular employees employed half time or more are eligible for the Flexible Spending Account Plans.

If you want to enroll in the Dependent Care and/or Unreimbursed Health Care Account, you will need to complete and sign an Election Form, including the amount(s) to be deducted from your check each payroll period. Your signature on the Election Form authorizes the Medical College of Georgia to make pre-taxed payroll deductions in the amount stated on the form. A new election form must be signed every year.

### **Changes During The Year**

When you enroll in the flexible spending accounts, you decide how much money you want to deposit in them for the year. You will need to plan carefully if you decide to use one or both of the spending accounts. Planning is essential: if you do not use all the money you've deposited during the plan year, you will lose the remaining balance in your account. Generally, you cannot change the amounts until the next annual enrollment period. However, you may make changes during the year under special circumstances.

According to the IRS, you can change your deposit amounts during the year only if you have a change in family circumstance. The following changes qualify as a change in family circumstance:

- Marriage or Divorce
- Birth or Adoption of a Child
- Death of a Spouse or Dependent
- Change in Employment Status of Spouse
- The mother's return to work following the birth of a Child and upon incurring Childcare Expenses

If you experience a change in family circumstance, you will be permitted to make changes to your flexible spending account (s). This change in your flexible spending account must be made within 31 days of the change in family circumstance. You must complete an Election Form within the 31-day period notifying the Division of Human Resources of any of these changes.

### **General Rules for Spending Accounts**

Your contributions for a plan year to the spending account(s) can only be used to reimburse eligible health and dependent care expenses that you incur for yourself and/or eligible dependents during the plan year. Expenses that you incur in excess of your account balance at the end of the plan year cannot be reimbursed or carried forward for reimbursement in a subsequent plan year.

The IRS has imposed several rules regarding the use of spending accounts. The most significant rule is the USE-IT-OR-LOSE-IT Rule. Any unused funds at the end of the plan year must be forfeited and cannot be returned in any manner. Because of this rule, it is very important that employees estimate their eligible expenses very carefully and conservatively-

If employment should terminate during the plan year, all contributions to the spending account will cease, effective the date of termination. However, employees will be entitled to submit claims for eligible expenses through the end of the plan year, or until the account has been depleted, whichever comes first.

## **UNREIMBURSED HEALTH CARE SPENDING ACCOUNT**

### **Contributions**

There is a maximum of \$4,000 per year that can be contributed to this Spending Account. The annual amount you decide to contribute will be deducted as a fixed amount each paycheck and is not subject to Federal, State or Social Security (FICA) tax.

### **Eligible Dependents**

In addition to claiming out-of-pocket expenses for your own medical care, you can claim expenses for your eligible dependents. Eligible dependents for your unreimbursed health care account are:

- Your Spouse
- Your Dependent Children

### **Eligible Expenses**

In general, health care expenses for you and your dependents are eligible for reimbursement from your Flexible Spending Account if they:

- Qualify as medical expenses for Federal income tax purposes under Section 213 of the Tax Code.
- Have not been and will not be reimbursed by the Medical College of Georgia medical or dental insurance plan or by another employee's group health insurance plan.
- Have not and will not be deducted from your income tax return.

As a condition to the Health Care credit of exclusion, you must provide original receipts for all claims submitted for reimbursement. The amount of your Health Care Account deposit will automatically be reported on your W-2 form.

The following are some examples of reimbursable expenses under the health care flexible spending account:

- Health and dental insurance deductibles and co-payments.
- Uncovered health services such as prescription glasses, contact lens, etc.
- Chiropractic care
- Over the counter medications. (Tylenol, cough medicine, allergy medication)

**Expenses That Are Not Eligible**

Some expenses are not eligible for reimbursement through the health care flexible spending account. Examples of ineligible expenses are:

- Cosmetic surgery
- Weight loss program, even if prescribed by your doctor
- Health club dues
- Health insurance premiums

**How The Health Care Account Saves You Money**

Let's look at an example. As shown in Table 1, Bob makes \$30,000 a year. Suppose he contributes \$500 to the Health Care Account. He then files claims for \$500 in his account. As the example shows, Bob will save \$113 in taxes.

**Table 1  
How a Health Care Account Saves You Money in Federal Taxes**

<b>How a Health Care Account Saves You Money</b>		
	<b>Without a Spending Account</b>	<b>With a Spending Account</b>
If your annual pay is:	\$30,000.00	\$30,000.00
And you deposit this much before tax money in a spending account:	\$0.00	\$500.00
Your taxable income will be:	\$30,000.00	\$29,500.00
Your federal and Social Security taxes are:	\$4,777.00	\$4,664.25
Your take home pay is:	\$25,222.50	\$24,835.75
Same amount in after-tax dollars:	\$500.00	\$0.00
Your spendable income is:	\$24,722.50	\$24,835.75
Tax savings:	\$0.00	\$113.00
NOTE: These figures assume 2004 taxes for an employee who is married, filing jointly, with one dependent child, and using the standard deduction. The tax savings assume the entire \$500 is used for eligible and no money is forfeited.		

**DEPENDENT CARE SPENDING ACCOUNT**

## **Contributions**

If you are married and file a joint tax return, file as head of household, or are single, you may elect to contribute up to \$6,000.00 per plan year to your dependent care spending account. The limit is \$3,000.00 if you are married and file a separate tax return. These limits are imposed by the Tax Reform Act of 1986.

## **Additional Employment Earnings Limitations**

The dependent care must be necessary for you (or you and your spouse) to work or in order for your spouse to attend school full-time. When you complete the election form, you choose the amount you wish to be deducted from each payroll check for the year.

However, during any month in which your spouse is a full-time student at an education institution or is physically or mentally unable to take care of himself or herself, your spouse will be deemed to have a monthly salary of \$200 if there is one dependent, or \$400 if there are at least two dependents who qualify for assistance under the Dependent Care Flexible Spending Account Plan.

The amount by which you may reduce your salary to make pre-tax contributions for dependent care expenses is limited to the lesser of your earned income or the earned income of your spouse.

## **Eligible Dependents**

Eligible dependents under the Dependent Care Account are:

- Dependent children under the age 13
- Your spouse, or any other person who is your dependent for federal income tax purposes, who is physically or mentally incapable of caring for himself or herself

If you are divorced or legally separated and the custodial parent, you can generally have your child's dependent care expenses reimbursed to you, i.e., if you have custody of the child for a longer period of time during the plan year than the other parent.

The following exceptions would override the custodial parent rule and permit you, as a noncustodial parent, to have your child's dependent care expenses eligible for the Flexible Spending Account:

- The custodial parent formally releases claim to the Federal income tax dependent exemption for the tax year.
- You provide over half of the support of the child under a multiple agreement, or
- You are entitled to the dependent exemption for Federal income tax as a result of an agreement executed prior to 1985.

## **Dependents Who Are Not Eligible**

Dependents not eligible for the Dependent Care Account:

- An elderly parent whom you help support but do not claim on your tax return

- Children whom you help support but do not claim on your tax return

### **Eligible Expenses**

Eligible Dependent Care Expenses are work-related expenses incurred for qualifying individuals. You may use the dependent care account to pay for:

- Nursery school or summer day camp
- Licensed day care center
- Dependent care duties performed by a housekeeper
- Babysitter
- Schooling costs for children not yet in the first grade
- A relative who cares for your dependents, so long as he or she is age 19 or older and is not one of your dependents.

Effective in 1989, as a condition to the Dependent Care credit of exclusion, you must provide the name, address, and taxpayer identification number of the dependent care provider. The amount of your Dependent Care Account deposit will automatically be reported on your W-2 form.

### **Expenses That Are Not Eligible**

Expenses not eligible for the Dependent Care Account include:

- Babysitting that is not work-related
- Overnight camping
- Schooling costs for the first grade or higher

### **Dependent Care Account vs. Federal Tax Credit**

Eligible expenses for the Dependent Care Account are the same expenses that would give you a dependent care tax credit under Section 129 of the Internal Revenue Code. You will need to decide if you want the tax advantages of the Dependent Care Account or if you want to take the federal dependent care tax credit. You cannot use the Dependent Care Account and the federal dependent care tax credit for the same expenses.

Listed below are the differences between the two:

- Using the Dependent Care Account reduces your taxable income
- The federal dependent care tax credit reduces your federal income tax by a percentage of your qualifying dependent care expenses. Although that percentage will vary according to your family income, the maximum expenses that can be used for the credit is \$3,000 for one dependent and \$6,000.00 for two or more dependents.

- Expenses reimbursed through the Dependent Care Account are not eligible for the federal dependent care tax credit.

Generally, if your total family income is less than \$24,000 a year, using the federal dependent care tax credit is better for you. To help you compare the two options, we have attached a Dependent Care Tax Worksheet to this booklet.

## **EFFECTS OF THE PLAN ON OTHER BENEFITS**

The salary dollars you contribute to the Spending Account are not subject to Federal, State or FICA taxes, and will not be included in the income report on your W-2 form.

Some of the benefits provided by the Medical College of Georgia (e.g., Teacher's Retirement, supplemental life insurance benefits, long term disability) are determined on the basis of your salary. For the purpose of determining these benefits, your salary will be based on your earnings before any salary reduction contributions are made to the Spending Account Plan.

However, under present law, your earnings for the purpose of determining your Social Security benefits do not include salary reduction contributions made under the Flexible Spending Account Plans. In almost all cases, the value of the FICA, Federal and State income tax savings to you should substantially exceed the reduction in your eventual Social Security benefits.

## **CLAIMS INFORMATION**

In order to receive reimbursement for an eligible claim for health care or dependent care expenses, you must complete a claim form that is available in the Medical College of Georgia's Division of Human Resources, Benefits Department. Please read each claim form carefully to be sure you have included all required information before you submit a claim.

During the month of May, you will receive a statement providing detailed information about the activity in your spending account. You will receive another statement three months before the end of the plan year if your account balance indicates potential forfeiture.

To enable you to use your spending account for expenses incurred up to the end of the plan year, you may continue to submit claims for three months following the close of the plan year. Those claims must be for expenses incurred during the actual plan year. At the end of a plan, if the total funds remaining in your account are not sufficient to cover the entire claim, you will be entitled only to reimbursement of the remaining balance of your account.

## **RULES FOR FLEXIBLE SPENDING ACCOUNT CLAIMS**

1. All claims must be accompanied with a completed claim form.
2. Dates of services for all reimbursable expenses must be in the current plan year which is January 1 through December 31.
3. Claims for expenses which are coverable expenses under employee's health or dental insurance plan must be submitted to employee's insurance company for action before being sent for reimbursement from the Flexible Spending Account. The insurance company's Explanation of Benefits must accompany such claims.
4. Claims must be accompanied by an original paid receipt. These receipts must provide the date of service, type of service, individual charges and the amount paid.

5. Participants are not permitted to change election amounts until the next calendar year, except for 31 days after the following changes in family circumstances:
- Change in Marital Status (Marriage or Divorce)
  - Death of a Spouse or Child
  - Change in the Employment Status of Spouse
  - Birth / Adoption of a Child
  - The mother's return to work following the birth of a Child and upon recurring Childcare Expenses

**NOTE:**

- Employees paid on a biweekly basis will have 26 deductions annually.
- Employees paid on a monthly basis (Professional/Administrative, 12-month faculty) will have 12 deductions annually.
- Nine-month faculty will have 10 equal deductions annually.

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