



Section 125

Flexible Spending Accounts

Q & A

What is Section 125?

It is a section of the Internal Revenue Code which allows for establishment of individual non-taxable accounts to pay for expenses associated with certain types of medical and dependent care.

How is the Plan Funded?

Salary redirection (*payroll deduct*) on a pre-tax basis similar to TSA (*tax sheltered annuity*) concept.

By making use of before taxed income to pay for un-reimbursed expenses, gross pay is reduced and in most cases, take home pay increased.

Benefit Accounts Available

1. Premium Payment Program

Premium costs paid by the employee.

2. Medical Care Expense Reimbursement

Expenses incurred by employee, spouse, or dependents that are not covered under a medical, dental, vision, or prescription plan.

3. Dependent Care Expense Reimbursement

Expenses relating to dependent care that enable the employee to work.

QUESTIONS AND ANSWERS

Section 125 Flexible Benefits

1. Who is eligible?

Employees of a participating employer. Self-employed persons are not eligible.

2. How Do I Know If I Should Enroll in The Flexible Benefits Plan?

A Section 125 worksheet will be provided. Using the worksheet, you can decide if enrolling in the plan would be advantageous to you. This should give you enough information to make an enrollment decision.

3. How can Section 125 increase my net income?

Section 125 may increase your net income by using before-tax dollars to pay benefits that are normally paid for with after-tax dollars. Following is an example of how the program might work for you:

Income <i>without</i> Section 125	
Salary	\$2,000
FICA, Federal, State	\$500
Net Income	\$1,500
Medical Expenses	\$200
Spendable Income	\$1,300

Income <i>with</i> Section 125	
Salary	\$2,000
Medical Expenses	\$200
Adjusted Earnings	\$1,800
FICA, Federal, State	\$450
Spendable Income	\$1,350

4. Do I ever pay taxes on the money I put into the Medical Expense or Dependent Care Accounts?

No. Money is put into these accounts before federal income taxes. Social Security taxes, state taxes and local taxes are withheld. You do not pay taxes on money taken out of these accounts to pay for eligible expenses.

5. Since I do not pay Social Security taxes on the money I put in these accounts, will my Social Security benefits be lower when I receive them?

If you contribute over a long period of time, your contributions to flexible spending accounts will reduce your Social Security benefit by a minimal amount.

6. *Once enrolled, can I change my mind?*
You may **not** change your election choice during the year except in the following cases:

- There is a change in your family status. Changes in family status include marriage, death, divorce and the birth or adoption of a child.
- There is a termination or the commencement of employment.
- There is a termination of your spouse's employment or the commencement of employment.
- Switching from part-time to full-time employment or from full-time to part-time status by the employee or employee's spouse.
- You may change your payroll deduction during the annual open enrollment period.

7. *What happens if I have a claim at the end of the plan year and don't get it in by the last day?*

You will have 90 days after the end of the Plan Year to file claims for eligible expenses you incurred during the Plan Year.

8. *What if I don't itemize deductions on my tax return? Can I still benefit from a flexible spending program?*

Yes. You don't need to itemize deductions to take advantage of this benefit.

9. *Can I deduct the medical expenses on my tax return that are reimbursed through the Medical Expense Account?*

No. You cannot claim a tax deduction for the same expenses that are reimbursed tax-free through your Medical Expense Account. But keep in mind that only medical expenses that are greater than 7.5 percent of your adjusted gross income can be deducted from your income taxes. Most people do not have high enough expenses to take the deduction.

10. *Can I use this account to pay for my spouse's deductibles and copayments?*

Yes. However, you cannot use this account to pay for your spouse's insurance premiums or premium contributions.

11. *What happens if I submit a claim and my Medical Expense program balance is less than the amount of the claim?*

You will be reimbursed up to the full amount of your annual Medical Expense contribution, even if the money has not yet been deposited in your account.

12. *If I haven't used all the monies in the account by the end of the year, can I request a refund for the unused portion?*

No. IRS regulations require you must use the funds in your account or they will be forfeited.

13. *Can I take tax credits for Dependent Care and Medical Expenses on my income tax if I am enrolled in the Flexible Benefits Plan?*

You receive tax benefits in only one of two ways: by participating in the Flexible Benefits Plan, or by taking income tax credits for these expenses. There are times when it is better to take the income tax credits rather than enrolling in the plan. You should discuss this with your tax advisor.

DEPENDENT CARE ACCOUNT

14. *What constitutes a dependent for the Dependent Care Benefit?*

Section 125 defines dependents as children under the age of 13, handicapped children, adults or elderly individuals who rely on the employee for financial support and are claimed as an IRS dependent.

15. *If my child's 13th birthday is this year, can I use the Dependent Care Program for the entire year?*

No. Only expenses you incurred before your dependent child reaches 13 are eligible for reimbursement. For example, if your child's birthday is October 1, you can use your account for day care expenses up to and including September 30.

16. *Can I use the Dependent Care Program to pay for someone to take care of my elderly mother so I can work?*

Yes. If your Mother lives with you and relies on you for at least 50% of her support, you can use the Dependent Care Program for her day care expenses. However, the care must be day care so that you can work, not custodial nursing care. Also, if you are married, the care must be necessary because your spouse also works or is a full-time student.

Please note, this information is provided as a convenience for you. Neither your employer nor OEA Choice Trust can give you specific tax planning advice.

17. *Are day care center expenses eligible?*

Yes. Day care expenses are eligible if the day care center is licensed and has more than six children or adults enrolled.

18. *What happens if I submit a claim and my Dependent Care balance is less than the amount of the claim?*

Your claim will be paid up to the amount available in your account.

19. *Are day care expenses for before-school and after-school care eligible under the Dependent Care Account?*

Yes. If a child under age 13 receives before-school and/or after-school care at school, you must separate the cost of the before and after-school care from the cost of the school. If this cost is not available separately, it will be prorated based on the number of hours your child spends in before and after-school programs.

Health Care/Dependent Care Worksheet

I. Estimate your family's out-of-pocket expenses:	Per Year
Health insurance deductibles	_____
Health insurance co-pays/co-insurance	_____
Prescription co-pays	_____
Out-of-pocket dental expenses	_____
Orthodontia	_____
Hearing aid batteries	_____
Eye surgery	_____
Glasses	_____
Contacts and contact lens solution	_____
Total	_____

Divide the total by the number of pay periods. This is the amount that is withheld from your paycheck each pay period.

Costs for over-the-counter (OTC) medicines not prescribed by a medical provider will be excluded from being reimbursed through a health FSA. Items such as pain relievers, cough medicines and antacids will no longer be reimbursed unless there is a doctor's prescription submitted along with the reimbursement request. (Insulin will remain eligible without a prescription.) Please see our "list of covered expenses for Section 125" at our website – www.oechoice.com/resources.

II. Dependent Care**

Total out-of-pocket expense	Total	_____
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Be sure to make allowances for when you are not using child care (For example: vacations and holidays).

Divide the total by the number of pay periods. This is the amount that is withheld from your paycheck each pay period.

****The IRS limits the amount of dependent care expense that can be elected through the Dependent Care account to \$5,000 annually (\$2,500 if married and filing separately). The dollar limit through the Federal Child and Dependent Care Tax Credit is \$3,000 annually for one dependent or \$6,000 for two or more dependents.**

Please note that neither your employer nor OEA Choice Trust can give you specific tax planning advice.

SECTION 125 ELIGIBLE EXPENSES

The following list, while not intended to be complete, illustrates medical or medical related and dependent care expenses. For a complete listing of medical and dental expenses, refer to Internal Revenue Service Publication 502.

Examples of Medical Expenses:

Medical expenses incurred by you, your spouse, your dependents and not paid under a medical, dental or vision plan:

Acupuncture	Orthopedic shoes
Alcoholism	Psychiatric care
Care for mentally handicapped individual	Psychologist fees
Chiropractors	“Seeing-eye” dog and its upkeep
Deductibles, coinsurance and amounts in excess of plan limits	Special communication equipment for the deaf
Dental treatment, Orthodontia	Hearing devices and batteries
Eligible drugs requiring a prescription.	Therapeutic care for drug and alcohol addiction
Eyeglasses or contacts including an examination fee	Tuition at special school for mentally or physically handicapped individuals
Home improvements necessitated by medical considerations	

Examples of Dependent Care Expenses:

Dependent care expenses are expenses incurred enabling you to work and are necessary for gainful employment.

If you are married and your spouse is not a full time student or is not capable of caring for him/herself.

Household services in connection with the care of a handicapped person.

Fees paid to a nursery school, even though the school provides lunch and educational services.

Examples of Medical Expenses Not Covered:

Expenditures that are merely beneficial to the general health of the person, such as exercise, fitness, nutrition, recreation, vacation, or membership in a spa or health club.

Cost of toiletries or cosmetics

Cosmetic surgery

Individual medical or life premiums

Examples of Dependent Care Expenses Not Covered:

Expenses taken as medical reimbursement.

The cost of food, clothing and education.

Transportation cost between your home and location of dependent care.

Expenses for which dependent care tax credit is taken or for which dependent care reimbursement is received.