Flexible Spending Accounts (FSA)

How the Plans Work

1. **Estimate your expenses**: Estimate your unreimbursed medical, dental and vision expenses (MERP) and dependent care expenses (DCAP), but be conservative! The IRS has several rules that govern this plan. If you overestimate your need and do not have enough eligible expenses to submit for reimbursement you risk forfeiting contributions left in your account at the end of the plan year.
2. **Enroll**: Your annual goal will be divided into equal payroll reductions. Each payroll period, this money is sent to PacificSource Administrators and is available for your use on each payday. You may access your total MERP election amount at any time during the plan year. Access to DCAP funds is limited to the total amount you have paid into your account to date.
3. **Request reimbursements**: As you incur expenses, you simply submit a Request for Reimbursement form to PacificSource Administrators along with copies of receipts or supporting documentation. You will be reimbursed for qualified expenses directly without paying tax on that money. Reimbursement is paid by check or via direct deposit.

Tax Savings Example

The dollars you include in your FSA reduce your taxable income, and reduce what is reported on your W-2 tax form.

	Your paycheck without an FSA	**Your paycheck with an FSA**
Gross Salary	$1,500.00	$1,500.00
Healthcare Expenses	$ 0.00	$ <200.00>
Adjusted Salary	$1,500.00	$1,300.00
Income Tax	$ <450.00>	$ <390.00>
Net Salary	$1,050.00	$ 910.00
Health Care Expenses	$ <200.00>	$ 0.00
Take Home Pay	**$ 850.00**	**$ 910.00**

By using an FSA to pay for out-of-pocket healthcare expenses with pre-tax dollars, the employee in this example has increased their take home income by $60 per month or $720 in a year.

What are the Rules and Risks?

The IRS regulates FSAs, and there are several rules that apply to MERP and DCAP accounts:

- **Enrollment and Elections:** Once you've decided on your FSA goal amount, your choice to participate is IRREVOCABLE. You cannot change your election amount or stop participation until the next plan year unless you experience a qualified change in status. Please see the *Guide to MERP* or *Guide to DCAP* for more information.
- **Use It or roll over up to $500:** If you allocate more money than you need during the plan year, any remaining money in your account (above $500 for MERP) is forfeited. FSA MERP balances up to $500 can carry over from one year to the next. It is important to be conservative with your expense estimates and contribution allocations, since over estimations can cause you to forfeit funds. You can carry balances from your account forward from month to month, but any unused/unclaimed money (over the $500 rollover limit) in the account by the end of the plan year will be forfeited. Only expenses incurred while you are a participant can be reimbursed from your MERP account. You have three months after the plan year ends to file claims incurred during the plan year. The deadline for filing claims for this plan year is March 31, 2017. Terminated Employees are not eligible for the $500

MERP rollover option. Employees called to active military duty may be permitted to take a taxable distribution of all or part of their unused MERP balance in certain circumstance. Contact PacificSource Administrators if you would like more information.

- **Date incurred.** Expenses must be incurred during your participation within the plan year to be eligible for reimbursement. "Incurred" means the date the service was rendered, not the date you paid the bill. There are some exceptions for orthodontic and obstetric care. Please contact PacificSource Administrators for more information.
- **No "double dipping."** Expenses paid through the FSA may not also be taken as an income tax deduction or reimbursed through an HRA VEBA account.

Questions and Answers about FSAs

- ***What are pre-tax dollars?***
  - Pre-tax dollars are those that are set aside from your gross earnings before any taxes are calculated. If you choose to participate in MERP or DCAP, your taxable income will be lower, and your taxes will also be lower. The end result is more spendable income for you and your family.
- ***Can my reimbursement check be directly deposited into my bank account?***
  - Yes! Please complete a direct deposit form and send to PacificSource Administrators to set up direct deposit. This form is included with your enrollment confirmation materials or available on multco.us/benefits or at http://psa.pacificsource.com/PSA/
- ***Do I have to claim any of my expenses on my year-end taxes?***
  - Only the dependent care expenses must be reported to the IRS. This is done on IRS Form 2441 (the same IRS form that is used for the Dependent Care Tax Credit.) Healthcare expenses that have been reimbursed through your FSA may not be claimed on your tax form.
- ***Can I make changes during the plan year?***
  - Normally, your elections are irrevocable, but in some situations you may make changes to your DCAP election if you experience a qualified event (marriage, divorce, birth, death, adoption, or a change in employment for you or your spouse) or have a change in provider or cost of care. Changes to your MERP election are allowed for a more limited set of qualifying events. Please contact the Employee Benefits office for more details.
- ***What is the maximum allowable allocation for an FSA?***
  - It varies by the type of expense. For DCAP, the current contribution maximum is $5,000 per calendar year, or $2,500 if married filing separately. The amount you are eligible to contribute to DCAP also cannot exceed your spouse's earned income in the tax year. For MERP, the maximum annual contribution is $2,550 per calendar year.

Questions Regarding MERP

- ***Do I need to send receipts when requesting reimbursement?***
  - Yes, documentation of expenses must be submitted along with the Request for Reimbursement form. Documentation can include a copy of the medical, dental or vision bill or the Explanation of Benefits from your insurance company.
- ***Do I need to send receipts when using the Benny Card?***
  - Yes, you may be asked to submit documentation for expenses that are not regular, set amounts such as coinsurance percentages or the first time you fill of a prescription.
- ***Can I participate in MERP if I'm not enrolled in Medical or Dental coverage through the County?***
  - You can participate if you're eligible for benefits, and can get reimbursement for expenses incurred for yourself or your eligible dependents even if they are not covered by the County Medical or Dental plans. Contact the Employee Benefits Office if you have questions about

your eligibility.

- ***If I incur a large expense early in the plan year, before I've accrued enough through payroll deductions to cover it, will I need to wait to be reimbursed?***
  - For MERP, you have access to your total annual contribution goal at the beginning of the plan year. You do not have to wait until you have accrued enough money in your account before receiving reimbursement up to your annual contribution goal.
- ***How long does it take to be reimbursed for a healthcare expense?***
  - If proper documentation is submitted, reimbursement takes about one week.

Dependent Care eligible expenses must be necessary for you and your spouse (if married) to be gainfully employed.

Typical DCAP eligible expenses include:

- Nanny expenses for services provided inside your home are eligible to the extent they are attributable to the dependent care expense and not expenses for incidental household services.
- Dependent Care expenses incurred for services outside your home, providing that they are incurred for the care of a qualifying dependent that regularly spends at least 8 hours per day in your home.
- Registration fees to a daycare facility are eligible as long as the fees are allocated to actual care and not described as materials or other fees.
- Nursery school expenses are eligible even if the school also furnishes lunch and educational services. Food and incidental expenses (diapers, activities, etc.) may be eligible as part of the dependent care charge.
- Expenses paid to a relative are eligible; however, the relative cannot be your child if under age 19 or a tax dependent of the participant.

Questions Regarding DCAP

- ***What types of dependents are eligible?***
  - Eligible dependents include your dependent children under the age of 13 who reside with you and who can be claimed as a dependent on your income taxes, and/or daycare expenses for your disabled children age 13 and older, your disabled spouse, or disabled elders (such as your parents) who are unable to care for themselves and reside with you. In most cases, care for non-Spouse partners or their dependents will not qualify. For more information, please review the back of the enrollment form or contact PacificSource Administrators .
- ***Does my spouse need to be working in order for me to have eligible DCAP expenses?***
  - Generally, yes. If you are married, you will not have eligible DCAP expenses unless your spouse works (or is looking for work), your spouse is disabled, or your spouse is a full-time student and attends classes outside the home at least five months a year. The amount you are eligible to contribute to DCAP cannot exceed your spouse's earned income in the tax year if that income is less than the plan maximum.
- ***What if I submit my dependent care receipt before I've accrued enough through payroll reductions to cover that expense?***
  - For dependent care expenses, reimbursement is available only after those funds have been payroll deducted by the County and transmitted to PacificSource Administrators. If you have a portion of the funds available when your request is received, PacificSource Administrators will issue a partial reimbursement right away. You will receive another reimbursement for the balance of your request as soon as adequate funds become available in another payroll cycle.
- ***How long does it take to be reimbursed for dependent care expenses?***

- Reimbursement takes about one week from the date your dependent care claim and documentation is received, as long as those funds are available in your account.

- ***Can I change my election for child care mid-year?***
  - Only if you experience a qualified change in status. This includes marriage, divorce, death, birth, adoption, or a change in employment for you or your spouse. It also includes a job shift change for you or your spouse that directly affects your dependent care or a change in provider or cost.
- ***Can I pay my child to watch my other kids and claim it as an eligible expense?***
  - The IRS does not recognize payments you make to dependents or your children under age 19. If the dependent care provider is a relative who is not a dependent and is over the age of 19, then it is eligible under your FSA. The rules that apply to your FSA are the same rules that apply to tax credits for dependent care.
- ***Will I save more money with DCAP than by taking the tax credit?***
  - In many cases, yes. A general rule of thumb is that if your family's taxable income puts you into the 28% federal tax bracket, this plan will save you more than twice what would be available through the tax credit. Also, if you have only one child in day care and pay more than $200 per month, the savings available through the FSA will be greater than the credit. You may deduct up to $5,000 per year from your taxable income for dependent care through your FSA. We recommend that you consult with your personal tax advisor if you have more specific questions about these issues.
- **Additional Questions?**
  - There are many regulations governing these Section 125 FSA plans. For more information, please refer to the *Guide to MERP* or the *Guide to DCAP* provided to you after enrollment or available anytime on multco.us/benefits or from the Employee Benefits Office. If you have any further questions about your FSA, please contact PacificSource Administrators anytime at 1-800-422-7038.