

Frequently Asked Questions Flexible Spending Accounts (FSA)

Q: What is a Flexible Spending Account (FSA) and how does it work?

A: A FSA, also referred to as a Cafeteria Plan or Section 125 Plan, is a voluntary benefit plan maintained by your employer wherein you are given the choice of benefits you would like to enroll in and then agree to redirect part of your salary through your employer's Flex Plan to pay for them. By redirecting your salary through the Flex Plan, you avoid paying payroll taxes on the redirected amount. Your election is irrevocable during the Plan Year unless you experience a Qualifying Event that will allow you to change or drop your election (see your SPD for types of Qualifying Events).

Q: What benefits are allowed under a FSA?

A: The most common benefits offered through a Flex Plan are Group Insurance Benefits. If you pay for a portion of the premiums to obtain health insurance coverage through your employer's group policy, you will be able to pay the premiums on a pre-tax basis. Other benefits may be offered including a Health Flexible Spending Account (Health FSA) and Dependent Care Flexible Spending Account (DC FSA), both of which are referred to as Flexible Spending Accounts. Your Summary Plan Description (SPD) will identify which benefits are offered under your employer's Plan.

Q: How will a FSA benefit me?

A: The greatest benefit is the tax savings. The benefits you purchase through your employer's Flex Plan are deducted from your salary before federal income taxes and Social Security and Medicare withholdings are calculated. Most states allow withholdings to be exempt from state taxes as well. A Flex Plan uses pre-tax dollars to pay for otherwise after-tax expenses that you will incur. By participating in a Flex Plan, your pre-tax deductions reduce the amount of taxable compensation and, consequently, the taxes you pay. Your take-home pay increases as a result!

Breakdown of pay check and deductions	WITHOUT FSA	WITH FSA
Gross Monthly Pay	\$2,500.00	\$2,500.00
Less Premium for Major Medical		(\$348.00)
Less Medical/Dental Expenses		(\$100.00)
Less Day Care Expenses		(\$200.00)
Taxable Income	\$2,500.00	\$1,852.00
Less 28% Federal Withholding	(\$700.00)	(\$519.00)
Less 7.65% Social Security Tax	(\$191.00)	(\$142.00)
Less Premium for Major Medical	(\$348.00)	-
Less Medical/Dental Expenses	(\$100.00)	-
Less Day Care Expenses	(\$200.00)	-
Spendable Income	\$961.00	\$1,191.00
The employee saved \$230 a month or \$2,760 a year by participating in the FSA. This is just one example of the possible tax savings under a FSA.		

Q: How do I enroll?

A: The method of enrollment varies by employer. You will receive an enrollment packet including information on your Flex Plan and the benefits your employer is offering, an Enrollment Form, and instructions on how and when to submit the enrollment form. Alternatively, your employer may require you to enroll online for certain benefits, including the Flex Plan, so be sure to follow your enrollment instructions. Please refer to your Summary Plan Description about the specific benefits offered under your employer's Plan.

Q: How long am I committed to participant if I enroll in the FSA?

A: You will not be able to change or discontinue your participation until the next Plan Year. The only exception to this rule is if you experience a Qualifying Event that will allow you to change or drop your election. If you do not sign up during your initial enrollment period, your next opportunity will be during open enrollment for the next Plan Year.

The IRS has limited the events that allow you to change your Health FSA election. Normally, you cannot change your Health FSA election when you

have a change in cost or coverage under your health insurance policy. You can usually change your election when you have a Qualifying Event, for example if you have a change in your marital status, a change in employment status or change in number of dependents. The change you will be allowed to make must be consistent with the Qualifying Event you experience.

If you are unsure about whether or not an event will allow you to make a specific change to your election, refer to your SPD. You may also contact your HR department or a Corporate Coverage TPA representative.

Q: What if I am not covered or I do not have my dependent(s) covered under my company's health insurance plan?

A: You and your family can still participate in the FSA.

Q: Do I have to have a lot of expenses to participate?

A: No. You may put aside enough money to cover what you reasonably expect to spend during your plan year. You should not put more than that, because if you do not use the money, you will potentially lose it. The Internal Revenue Service mandates this provision of the law.

Q: What is the minimum and maximum amount I can put into my account(s)?

A: These amounts are specified in your SPD as determined by your employer.

The maximum for each type of account per the IRS statutory limits are as follows.

Health FSA: \$2,750 annually per employee.

Dependent Care FSA: \$5,000 per plan year and calendar year for the head of household or married filing joint tax return; \$2,500 per plan year and calendar year for married filing separate tax returns.

Q: What is Health FSA and how does it work?

A: The Health FSA allows you to pay eligible medical expenses for you and your eligible dependents using a portion of your pay that is not taxed.

Under a Health FSA, you can elect to set aside a certain amount of your salary (Annual Election) to pay for unreimbursed medical, dental and vision expenses. This money will be deducted from your pay (before taxes are calculated) and put into your Health FSA. You will then submit claims against your Health FSA to pay for your unreimbursed medical,

dental and vision expenses.

You can be reimbursed at any time up to your Annual Election minus any previous claims. Your reimbursement from your Health FSA according to Uniform Coverage Rule does not depend on the amount of contributions you have made to the Plan.

Uniform Coverage. Uniform Coverage is the term the IRS uses to describe coverage under a Health FSA. In simple terms, it means that you can be reimbursed, at any time, for claims up to your Current Annual Election minus any previous claims. It doesn't matter how much money you have contributed to date.

Q: What Health FSA expenses are eligible and ineligible?

A: The IRS defines medical expenses as "Amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, and for treatments affecting any part or function of the body. The medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness." Medical expenses for Health FSAs must meet the following additional requirements:

- Expense must be incurred during coverage period.
- Expense must be for services provided to a participant, a participant's spouse or a participant's dependent(s).
- Expense must be permitted under the Plan.
- Expense must be primarily for a medical purpose.
- Expense would not have been incurred "but for" the medical condition.

Expenses not incurred out of medical necessity are not eligible. Expenses that are not eligible for reimbursement include, but are not limited to:

- insurance premiums (these usually can be paid on a pre-tax basis directly from payroll but are not included in your Health FSA election)
- COBRA premiums
- cosmetic procedures (such as teeth bleaching, face lift, hair implants)
- vitamins, health club dues, and weight-loss programs for general good health
- expenses reimbursed or reimbursable under any other benefit plan

See the attached chart for a listing of eligible and ineligible expenses. Use the Health FSA Worksheet to calculate the amount you want to contribute to a

Health FSA. If you are unsure if an expense you are anticipating during the up-coming Plan Year will be eligible for reimbursement, contact your Corporate Coverage TPA representative for assistance prior to making your election.

Q: What is Dependent Care FSA?

A: The IRS permits you to exclude from your gross income a certain amount of the dependent care expenses that you pay in order to work (or look for work) and has provided two methods for you to do this. Under IRC §21, you can deduct your expenses as a Dependent Care Tax Credit when filing your income tax return. IRC §129 allows you to participate in a DC FSA through your Flex Plan. There is no “double-dipping”. If you are using a DC FSA, you may not also elect the Dependent Care Tax Credit for the same money.

Q: How do I know whether to use the DC FSA under the FSA or the Dependent Care Tax Credit when filing my income tax?

A: Generally, if your income tax bracket is 15 percent or less, it may be to your advantage to file for a tax credit on your income tax return. However, this varies depending on your filing status and how many dependents you have. Consult your tax or legal advisor when evaluating the effectiveness of this benefit. For more information, also see the [IRS Publication 503, Child and Dependent Care Expenses](#)

Q: What expenses can I claim under a DC FSA?

A: You can only claim expenses that are “employment-related expenses” or expenses that pass both of the following tests:

- The dependent care is necessary for you (and your spouse) to be gainfully employed (or to actively search for gainful employment), and
- The dependent care (and incidental household services) is for one or more qualifying individuals:
 - **Dependent age 12 or younger.** This is your dependent living with you (usually your child) for whom you provide more than half of their support.
 - **Disabled spouse or dependent.** If your spouse or dependent is physically or mentally incapable of self-care, that person is a qualified individual. It is not necessary for you to be eligible to claim a dependency exemption on your income tax return for that person; however he or she must spend

at least eight hours per day in your household.

The expenses are determined on a daily basis. This means that the dependent care for each day must be necessary for you (and a spouse, if any) to work. If you work Monday through Friday and your spouse works Thursday through Sunday, only the dependent care for Thursday and Friday are eligible since those are only the two days both of you work.

Expenses for incidental household services are eligible and may be claimed only if they are “paid for the performance in and about the taxpayer’s home of ordinary and usual services necessary to the maintenance of the household” and are “attributable in part to the care of the qualifying individual.”

The following expenses are **not** reimbursable:

- Care where the provider is your child who is under 19 years old.
- Care provided by a day care center that does not comply with state or local law.
- Payment to someone that you or your spouse could claim as a dependent for federal income tax purposes.
- Services provided outside your household for a dependent incapable of self-care, unless that person spends at least eight hours a day in your household.

Please see the attached chart for a listing of eligible and ineligible expenses.

Q: Can expenses be reimbursed from the DC FSA at the beginning of the month for care that will be provided during that month?

A: No, regulations require that claims can only be reimbursed when a service has actually been incurred. So, even though a participant pays for dependent care at the beginning of the month, until the care has actually been provided, the participant is not entitled to the reimbursement.

Q: Must my spouse also work?

A: In order to participate in the Dependent Care Assistance Plan, your spouse must also be gainfully employed, in active search of gainful employment, be physically incapable of self-care, or be a full-time student. Unpaid volunteer work is not considered gainful employment. If you divorce and remarry, your spouse must also

be gainfully employed even if he/she has no legal connection with the children.

Q: If I do not participate for the entire plan year, what eligible expenses are reimbursable?

A: Health FSA: Expenses incurred before your date of enrollment or after your date of termination (terminating employees may be eligible for continuation of coverage under COBRA – see the following question for additional information) are NOT eligible for reimbursement.

Dependent Care FSA: Expenses incurred after your date of enrollment and through the end of the plan year are eligible for the reimbursement.

Q: How does COBRA apply to the Health FSA?

A: If you have contributed to the Health FSA and have not incurred sufficient expenses to claim all you've contributed as of your date of termination, you may benefit by electing to continue your coverage under COBRA. If your employer is subject to COBRA, you will be given the opportunity to continue to pay your contributions to the Plan Sponsor on an after-tax basis for the remainder of the Plan Year. Although you will not realize the tax savings on your COBRA payments, you will extend the period of time during which you can incur eligible medical expenses and receive reimbursement from the Plan.

Q: What happens if I do not have enough expenses to be reimbursed the whole amount I have contributed?

A: Please refer to your specific plan SPD. You will have a period of time after the end of the Plan Year to submit claims for expenses incurred during the Plan Year. This period of time is known as the "Run-Out Period." Any money left in your account after the end of the Run-Out Period will be subject to your plan specifics outlined in the SPD.

Q: How do I get my money out of my reimbursement account(s)?

A: To be reimbursed, you must file a claim form with Corporate Coverage TPA according to the claim instructions, which include the following rules:

- The expenses must be incurred within the Plan Year. There is a Run-Out Period after the end of the Plan Year during which you may submit expenses incurred during the Plan Year. (Refer to your SPD.)
- The claim must be for expenses already incurred.
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- The claim must be accompanied by a bill or itemized receipt from the provider or an Explanation of Benefits (EOB) from the insurance carrier. A cancelled check will not qualify.

You are not required to submit the original receipt. However, each claim submission must be substantiated by a legible copy of your provider's documentation. Please note, uninitialed changes or documentation which appears altered will not be accepted.

Reimbursements for health care expenses are made based on your Current Annual Election less any prior reimbursements for the year. Please see your enrollment materials for details on reimbursement schedule.

Dependent care expenses are reimbursed based on the balance of your account. If the balance in your DC FSA account (contributions to date minus previous payments) is not sufficient to pay your expenses, you will be paid the amount in your account. After you contribute more money to the account, you will automatically be reimbursed for the difference.

Q: Who do I contact if I have any questions regarding my account or the Program?

A: Corporate Coverage TPA has representatives available by telephone Monday through Friday during normal business hours to answer your questions at [866.993.7702](tel:866.993.7702). You may also reach us via email at: Questions@corporatecoverage.net