YMCA of Metropolitan Denver Flexible Spending & Premium Conversion Plan

How Do the Flexible Spending Accounts Work?

The IRS allows your employer to provide you access to two money-saving, tax-favored vehicles to save money on things you already pay for. The two accounts are the Health FSA and Dependent Care Reimbursement Account. Prior to the beginning of each plan year, you estimate the amount of your anticipated expenses and decide how much of your pay you wish to allocate to the Health FSA or Dependent Care Reimbursement Account. Very simply, you have deductions taken in equal installments each payroll into the account available for your use. Your taxable income is reduced by the amount you elect to deposit into this account. Your state, federal and social security taxes are reduced accordingly.

There are several mechanisms for accessing your account(s) that are discussed later in this newsletter. However, you may submit claims anytime throughout the plan year. All reimbursements are made directly to you, not the individual provider. You are responsible for paying your provider.

Contributions to your account will stop at the end of each year and will not continue unless you elect to participate in the new year. Your participation in the plan will also end at the time you terminate your employment.

The Health FSA allows you to reimburse yourself for eligible, medically necessary expenses which are either not covered or are not reimbursed by any other source, up to the annual maximum of $2,000. Because of the unknown nature of when you might need medical care, your balance is available to you from the first day of the plan year, and you pay the account back through the year with payroll deductions.

The Health FSA is available for you to reimburse the expenses of all members of your tax family. This means that even if you don't cover your spouse or kids under your employer's health plan, their eligible medical expenses are still reimbursable under the Health FSA.

There are a large number of expenses that are reimbursable from the Health FSA. The IRS defines expenses as eligible if they are incurred **"for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body."** Some common examples are:

- Expenses which were applied toward your individual or family deductible.
- Plan co-payments-those expenses not paid at 100%.
- Prescription Drugs
- Equipment or services that are not covered under the health or dental plans, such as eyeglasses, hearing aids, contact lenses, and orthodontia.
- Other medical costs not covered under the health plan, such as eye exams, hearing tests, annual physical exams, etc.
- A more complete list is available at www.beneworld.com. See HR for instructions to log-in.

Effective January 1, 2011—Over-the-Counter Medications and Drugs will require a prescription from your doctor for reimbursement. Please take this into account when making your election!

Beth is single and has cash compensation of $28,000 per year. She takes the standard deduction on her income tax form, and she elects to put $1,000 into her Health FSA since she knows that she'll be electing orthodontic services this year, as well as what she expects to pay in deductibles and co-payments from her past medical experiences. Figure 1 compares her results with and without the Health FSA. By using tax-free dollars in her MRA, Beth was able to realize $406 in tax savings, money which ultimately goes into her wallet. In essence, she only paid $594 to receive all of her medical expenses that had previously cost her $1,000.

Advantage of a Health FSA

	With Account	Without Account
Annual Gross Salary	$28,000	$28,000
Medical Expenses	1,000	0
Taxable Income	$27,000	$28,000
Federal Tax (28%)	7,565	7,848
FICA (7.65%)	2,065	2,142
State Tax (4.6%)	1,242	1,288
After Tax Income	$16,128	$16,722
Medical Expenses	0	1,000
Spendable Income	$16,128	$15,722
Net Pay Raise	**$406**	

The Dependent Care Reimbursement Account allows you to provide tax-free refunds for the care of dependents while you work up to a maximum of $5,000 per year. You can use the tax-free dollars in your Dependent Care Reimbursement Account to pay for these expenses if there are dependents at home who have to be cared for while you and your spouse work, or if you have no spouse, while you alone work. This will include expenses for children, parents, or any other tax-dependents who are unable to care for themselves. The law does impose a restriction, however, that these expenses may not be used for private schooling of a dependent, as opposed to day care, or for nursing home care for an elderly parent.

In order to use either the Dependent Care Reimbursement Account or the Federal Child Tax Credit, you will be required to submit the benefit provider's name, address, and tax identification number (or Social Security number in the event of an individual). Therefore, before you can make an election to utilize the Dependent Care Reimbursement Account, be sure to obtain the necessary information (particularly the tax identification number) from your dependent care provider.

There is also a ***federal tax credit available*** for those expenses, up to certain limits. In some instances, it may be to your advantage to utilize the federal tax credit rather than the Reimbursement Account. In other circumstances, the Reimbursement Account may provide a greater benefit. A Dependent Care Reimbursement Worksheet is available to help you determine which would be more advantageous for you. It is strongly recommended that you consult with your outside tax advisor on which method will work best for you.

The maximum you can deposit in a calendar year is $5,000 if you are married and filing a joint tax return or file single, or $2,500 if you are married and filing separate tax returns. Also, the amount you elect cannot be greater than the lesser of your income or your spouse's income. For example, if you earn $55,000 and your spouse earns $4,000 and you are filing a joint tax return, you can only deposit up to $4000.

Under the Dependent Care Reimbursement Account, you will not be reimbursed for an amount greater than your current account balance. For example, if your current account balance is $100, and you submit a claim for $150, you will receive only $100. The remaining balance will be pended until funds are available. After your next payroll and you have an account balance, you will receive the remaining $50. The money you deposit in your account can be used to reimburse you for eligible expenses incurred in that plan year only. An expense is considered incurred when the service is provided, not when you are billed or when you pay for the service.

Submitting a Claim

When you incur an eligible expense and wish to submit a claim you should do so as soon as possible. You may obtain a Request for Reimbursement Form from your Human Resource Department or online at www.beneworld.com. Proof of Service (not to be confused with proof of payment) must be attached to the completed form before submitting the form. You can also enter your claim online, print the form, and attach your receipts for submission.

If you have an expense that is covered under an insurance policy, you should first submit a claim to your insurance carrier. The carrier will return to you an Explanation of Benefits form stating what amount of your claim is covered. The amount that is not covered, or is applied to your deductible or co-pay, may be reimbursed through the Health FSA.

You are given a grace period after the end of the plan year to submit claims. This grace period will allow you time to request reimbursements for the eligible expenses that were incurred near the end of the plan year.

Requests for Reimbursement must be ***mailed, emailed, or hand delivered*** to:

Kushner & Company
Attn: ***Your Employer***
2427 West Centre Avenue
Portage, MI 49024
FSA@kushnerco.com

Customer Service can be reached at:
800-KUSHNER or 269-342-1700, ext. 213
FSA@kushnerco.com or visit your account online at www.beneworld.com.

Roger is married, has two children, and his wife works outside the home. Roger and his wife have a combined cash compensation of $55,000 per year. Since the children are still young, they require a baby-sitter so that both Roger and his wife can work. Roger knows that he pays the baby-sitter $102 per week, and that he does not need the baby-sitter three weeks of the year, as the family will be on vacation for that amount of time. Therefore, he calculates that he needs to deposit $192.23 each pay period ($102 x 49 week/26 pay periods = $192.23) into his Dependent Care Reimbursement Account. Figure 2 compares Roger's results with and without the Dependent Care Reimbursement Account (DCRA). Therefore, by using the tax-free dollars in his DCRA, Roger was able to realize $2,012 in tax savings, which ultimately goes into his pocket. In essence, he only paid $2,988 to receive all of his baby-sitting expenses (which previously cost $5,000).

Advantage of Dependent Care Reimbursement Account

	With Account	Without Account
Annual Gross Salary	$55,000	$55,000
Dependent Care Expenses	5,000	0
Taxable Income	$50,000	$55,000
Federal Tax (28%)	14,000	15,400
FICA (7.65%)	3,825	4,207
State Tax (4.6%)	2,300	2,530
After Tax Income	$29,875	$32,863
Dependent Care Expenses	0	5,000
Spendable Income	$29,875	$27,863
Net Pay Raise	**$2,012**	

Figure 2

Premium Conversion Plan

What is a Premium Conversion Plan?

The IRS permits an employer to set up a plan that allows you to pay for certain premium contributions (health, dental, etc.) on a pre-tax basis. This means that your contributions to the benefits offered by your employer are not subject to Federal Income Tax, State Income Tax, or Social Security Tax. This has the potential to **save you** significant dollars on the premium amounts you already contribute!

How Does the Premium Conversion Plan Work?

Each year prior to the beginning of your Premium Conversion Plan Year you will be required to complete an enrollment form electing the benefits and coverage levels that best fits you and your family's needs. It is important to note that in most instances your election is irrevocable for the remainder of the Plan Year. There are certain limited circumstances that allow changes, however. These are discussed in the greater detail in the Summary Plan Description that you will receive.

How Much Money Will I Save Under the Premium Conversion Plan?

By using the Tax Savings Worksheet found on the second page, you are able to estimate your annual tax savings based on your family status and income tax bracket. For example:

> Sue works at XYZ Company and enrolls during the open enrollment period in family health coverage. The family health coverage costs Sue $300 per month, or $3,600 per year, which is taken out of her check each pay period through payroll deduction. Sue is married and she and her husband make $65,000 per year. According to Table I (on the worksheet) this places Sue and her husband in the 28% federal income tax bracket. Sue also pays 4.1% in state income tax, and 7.65% in social security tax. When added together, Sue is currently paying 39.65% of her combined income in total taxes. Previously, Sue had to earn enough money that after she paid all her taxes, allowed her to have $3,600 to pay her health premium contribution. In her tax bracket, this meant she had to earn $5,027.40 in order to pay her taxes and then pay the $3,600 health plan premium payment. Under the Premium Conversion Plan, Sue is able to pay that same $3,600 before any taxes are taken out! That saves Sue $1,427.40 this year in taxes!! That's money that goes right back into Sue's pocket! It's like getting a $1,427.40 raise.

Thought of another way, Sue previously had to earn $418.95 each month to pay for her monthly health contribution of $300. Under the Premium Conversion Plan, Sue has to earn only $300 to pay the $300 health contribution. That's $118.95 more per month in her paycheck!

Plan Carefully!!

You can well imagine that the federal tax laws are fairly strict when any employer implements these Reimbursement Accounts. To avoid any abuse of the Accounts, the IRS says that once you tell your employer to set aside money into your reimbursement account, you can only use those dollars to pay for either medical or dependent care expenses incurred during the plan year. If any money is left in either Account at the end of the year, by law it must be forfeited. You may or may not only be able to change your election(s) due to very specific circumstances that the IRS refers to as Qualified Changes in Status. These include situations such as birth, adoption, divorce, change in employment status of you or your spouse, etc. Your Human Resources representative has a more complete list of examples. Therefore, you should plan very carefully when putting money into these Accounts. It is better to underestimate the amount you will need than to have large sums left over that you cannot receive. But you can be pretty sure of some of the expenses you will have. For example, you may know that it will be time for an eye exam and a new pair of glasses in the coming year, or perhaps that a child will need orthodontia. Also, you should use as a guide the expenses you have incurred in the past few years. It is best to estimate conservatively, and thus expect to use all the dollars you set aside into one or both of these Accounts.

Similarly, dependent care expenses are relatively easy to estimate since they are usually a set amount each week. Be sure to take into account any vacation time or other time off when you won't need to utilize dependent care services when calculating how much to set aside into that Account.

No one wants to forfeit any unused balance at the end of the year, but even if such forfeitures do occur (hopefully only in small amounts), you will probably still have saved significantly more tax dollars than the actual expenses and still save money. These unused balances will be left in the plan, to cover administrative costs or used to keep next years costs down.

Plan conservatively, and enjoy the tax savings provided by participation in these plans. If at any time you have any questions about your account, please feel free to contact your employer or Kushner & Company. This newsletter is meant as a general guide only. For more information about your plan, please see your Summary Plan Description (SPD) available from Human Resources.

Transportation Reimbursement Account

You have the opportunity to be reimbursed with ***pre-tax*** dollars for certain transportation costs associated with getting to and from work. The two forms of reimbursable transportation expenses are Parking Reimbursement and Public Transportation.

To participate in this reimbursement you will need to fill out the enrollment form designating how much you would like taken out of your check pre-tax for reimbursement of these expenses. At the time of enrollment you do not need to choose whether you want to be reimbursed for parking or for public transportation. You may use whatever money you elect to have deducted from your pay to be reimbursed for either.

Parking Reimbursement

You may elect to deduct from your pay and be reimbursed for parking expenses with pre-tax dollars up to $230 a month. A qualified parking area is defined as locations on or near where the employee boards public transportation or a carpool; or sites on or near the employer's premises. For employers to offer this reimbursement benefit, they must establish a "bona fide reimbursement arrangement" to ensure that its employees have, in fact, incurred expenses for parking. Under such an arrangement, employees must demonstrate that an amount equal to the reimbursement was expended for qualified parking. You will be receiving a Request for Reimbursement Form. This form serves as your "claim" form. You will need to attach a copy of your parking receipt(s) as proof incurring the expense(s). The burden has been placed on you to provide accurate reimbursement information. Only you will be held liable for false information.

Public Transportation Reimbursement

You may elect to deduct from your pay and be reimbursed for public transportation expenses with pre-tax dollars up to $230 a month. For employees, using public transportation, such as buses and trains, often saves such commuting costs as gas, insurance, car maintenance and repairs, and parking fees. Although there may be an overall increase in commuting time, that drawback is usually offset by a less stressful commute. Many employees appreciate having more time to read, catch up on paperwork, socialize, or even sleep. For employers to offer this reimbursement benefit, they must establish a "bona fide reimbursement arrangement" to ensure that its employees have, in fact, incurred expenses for public transportation expenses. Under such an arrangement, employees must demonstrate that an amount equal to the reimbursement was expended for qualified public transportation. You will be receiving a Request for Reimbursement Form. This form serves as your "claim" form. You will need to attach a copy of your parking receipt(s) as proof incurring the expense(s). The burden has been placed on you to provide accurate reimbursement information. Only you will be held liable for false information.

This newsletter is meant to give you a brief overview of the Transportation Reimbursement benefit. Should you have additional questions, please contact human resources.