Flexible Spending Account FAQs

What is a Flexible Spending Account (FSA)?

An FSA is an employer-sponsored plan that allows you to deduct dollars from your paycheck and deposit them into a special account that is protected from taxes. FSA accounts are exempt from federal taxes, Social Security (FICA) taxes and, in most cases, state income taxes. The money in an FSA can be used for eligible health and/or dependent care expenses that are incurred while you are participating in the plan.

What types of Flexible Spending Accounts are there?

- Health Care FSA: Covers medical, prescription, dental and vision expenses
- Dependent Care FSA: Covers dependent care expenses including daycare, nursery school and day camp for children, and services for adult dependents who cannot care for themselves
- Limited Health Care FSA: Covers dental and vision expenses only (for compliance with a health savings account)

What expenses are eligible in a Health Care FSA?

Eligible health care expenses are based on the interpretation of Section 213 (d) of the IRS code. As such, you will never find an all-inclusive, definitive listing of eligible expenses. The IRS defines eligible 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." For more information, you can visit the IRS website, www.irs.gov. In contrast to filing medical tax deductions, FSA expenses must be *incurred* during the plan year.

What expenses are eligible in a Limited Health Care FSA?

Eligible limited health care expenses are also based on the interpretation of Section 213 (d) of the IRS code; however, the expenses will be limited to dental and vision expenses only.

What does it mean to incur expenses?

The IRS considers expenses to be "incurred" at the time you receive medical care or dependent care--not when you are formally billed or actually pay for services. Only eligible expenses you incur within the plan year and while you are active in the plan, including any employer-allowed grace period, are eligible for reimbursement.

When does my FSA become effective?

Your FSA becomes effective **on the date you are eligible**. An FSA does not always start on your hire date. Contributions to your account begin as soon as administratively possible after you are enrolled, typically the first paycheck after your effective date.

How do I participate in an FSA?

To participate, you must enroll during your new hire enrollment period or elect to participate during annual Open Enrollment. If you have a life event change (for example, birth or adoption of a child), then you may be able to enroll without waiting for annual Open Enrollment, if you enroll within 31 days of the change.

Who qualifies as an eligible dependent?

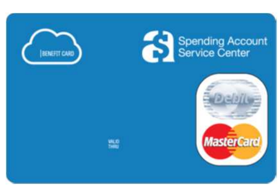
An eligible dependent is any dependent for which an employee pays a provider to care for him/her while they are at work or looking for work. The dependent must be under the age of 13 or incapable of taking care of themselves, and live in the employee's home for more than half of the year.

FSAs do not require that your dependents be covered under your health insurance plan. You can use your account to pay for eligible health care expenses for your family, regardless of the health insurance plan in which they are enrolled.

How often can I request reimbursements?

If you pay for an expense out of pocket, reimbursements can be requested as often as qualified expenses are incurred. Expenses must be incurred during the plan year and the reimbursement must be requested before the end of the run-out period.

Will I receive a debit card with my Flexible Spending Account?



NEW: MMA Blue Card

Yes. The MMA Blue Card Prepaid Benefits Card is a special-purpose MasterCard® that gives you an easy, automatic way to pay for eligible health care expenses. The card lets you electronically access the pre-tax amounts set aside in your respective employee benefits accounts.

It works like a MasterCard®, with the value of your account contributions stored on it. When you have eligible expenses at a business that accepts MasterCard®, simply use your card. The amount of the eligible purchases will be deducted – automatically – from your account and the pre-tax dollars will be electronically transferred to the provider/merchant for immediate payment.

What happens if I have money remaining in my account at the end of the year?

Flexible Spending Accounts are "Use It or Lose It" plans. You will forfeit the money that remains in your account. Any excess funds are kept by the employer and can be used to offset the costs of administering the program. The IRS regulations require this, and do not allow employers to return the money to plan participants.

Dependent Care Grace Period

The FSA Grace Period allows you to have an additional 2 ½ months after the end of the plan year to spend down money that is left in your FSA healthcare account. This extension of time to incur expenses reduces the chance for any forfeitures, as every 12 month plan year is, in essence, 14 ½ months.

Only those who have FSA coverage through the last day of the Plan Year can continue to incur claims during the Grace Period

All FSA claims and transactions for services during the Grace Period will automatically be applied and processed from your earlier Plan Year balance *first* if filed by the claims filing deadline for that Plan Year. If your claim exceeds the available funds from the earlier Plan Year, any excess will be automatically applied to the current plan year.

Health Care and Limited Health Care Balance Carryover Option

The Balance Carryover option allows you to carryover up to $550 of the remaining balance of your Health Care Spending Account into the next Plan Year to be used for future expenses. The amount carried over can be added to the balance of your newly elected account *in addition to* IRS maximum limits. Plans that offer a carryover feature do not offer a grace period.

The run-out period will occur during the period of time that you may have carried over a balance. You may continue to submit your expenses for the previous plan year through the run-out period deadline. If there is an amount was carried over and it can be used toward those previous year expenses, the balance will automatically roll back to allow for reimbursement of the claims.

Can I change my election or stop contributing money to my FSA at any time during the plan year?

Federal regulations state that once you have enrolled in an FSA, you cannot change your election amount unless you have a qualifying life event.

What happens to my FSA if I terminate employment in the middle of a plan year?

You will have a specific amount of time, called the run-out period, during which you can submit claims that were incurred prior to your termination date. You employer determines the run-out period. You may not be reimbursed for any claims incurred after your termination date. However, you may be able to continue your Health Care FSA coverage under COBRA.

How much will I really save in taxes by contributing to an FSA?

Generally, contributions you make to your FSA are not subject to federal or social security taxes. In most instances, there are no state taxes taken out either. The amount you may save depends upon:

- The amount you put into your FSA
- The tax percentage you would normally pay on that money (tax bracket)

Let's say you want $2,000 taken out of your paycheck this year to put into your FSA. The money you direct to your FSA is taken out of your check before taxes are taken out. That reduces your taxable income by $2,000.

For example, let's say that you normally pay 30 percent in federal, social security and state taxes on your income. In this example, you would enjoy a tax savings of 30 percent of the $2,000. In other words, you could get a $600 tax savings on the $2,000 you directed to your FSA.

Does my daycare provider need to be licensed in order to use the Dependent Care FSA?

No, you can use the Dependent Care FSA to cover expenses for anyone who watches your children while you and your spouse are working. It can even be a family member, as long as that person is not your tax dependent. You must provide the Social Security number or Tax ID of your daycare provider, and that person must claim the income.

My spouse is a stay at home parent, can I use the Dependent Care FSA to pay for preschool?

No, the regulations state that care must be rendered so that both you and your spouse can be gainfully employed, look for gainful employment or attend school.

Can I transfer money from my Health Care FSA to my Dependent Care FSA?

No, you can use funds only for the purpose for which the election was initially made. IRS regulations do not allow funds to be transferred or commingled between accounts. So, the money in your Health Care FSA may only be used for health care expenses and your Dependent Care FSA may only pay for dependent care expenses.