

Flexible Spending Accounts

An Informational Booklet for Employees



brought to you by Kapnick Insurance Group



People helping people...it's what we do best

Flexible Spending Accounts (FSAs)

Advantages of having a Flexible Spending Account

- Money goes into your account tax-free
- Money comes out of your account tax-free when used for qualified expenses
- Your full annual election is available to use on the first day of the plan year (medical expenses only).

A word of caution: funds not used by the end of your plan year (including grace period) are forfeited so be conservative when selecting your election.

Flexible Spending Accounts (FSAs) provide you with an important tax advantage that can help you pay health care and dependent care expenses on a pre-tax basis. By anticipating your family's health care and dependent care costs for the next plan year, you can actually lower your taxable income.

Essentially, the Internal Revenue Service set up FSAs as a means to provide a tax break to employees and their employers. As an employee, you agree to set aside a portion of your pre-tax salary in an account, and that money is deducted from your paycheck over the course of the year. The amount you contribute to the FSA is not subject to Social Security (FICA), federal, state, or local income taxes - effectively adjusting your annual taxable salary. The taxes you pay each paycheck and collectively each plan year can be reduced significantly, depending on your tax bracket. And, as a result of the personal tax savings you realize, your spendable income will increase.

The example to the right illustrates how a flexible spending account can save you money.

Bob and Jane's combined gross income is \$30,000. They have two children and file their income taxes jointly. Since Bob and Jane expect to spend \$2,000 in adult orthodontia and \$3,300 for daycare next plan year, they decide to direct a total of \$5,300 into their FSAs.

The Health Care Reimbursement FSA lets you pay for certain IRS-approved medical care expenses not covered by your insurance plan with pre-tax dollars. For example, cash that you now spend on deductibles, copayments, or other out-of-pocket medical expenses can instead be placed in the Health Care Reimbursement FSA pre-tax, to pay for these expenses.

Eligible Health Care Expenses for the Health Care Reimbursement FSA include more than just your deductible and copayments. Generally, any medically necessary health care expense that you can deduct on your tax return is considered an eligible expense. Some examples include:

- Hearing services, including hearing aids and batteries
- Vision services, including contact lenses, contact lens solution, eye examinations, and eyeglasses
- Dental services and orthodontia
- Chiropractic services
- Acupuncture
- Prescription contraceptives

For more information about eligible medical expenses, please refer to the attached list of examples of eligible and ineligible expenses, or refer to *IRS Publication 502, Medical and Dental Expenses* available at <http://www.irs.gov/publications/p502/index.html>

The Dependent Care FSA lets you use pre-tax dollars towards qualified dependent care. The annual maximum amount you may contribute to the Dependent Care FSA is \$5,000 (or \$2,500 if married and filing separately) per calendar year.

If you elect to contribute to the Dependent Care FSA, you may be reimbursed for:

- The cost of child or adult dependent care
- The cost for an individual to provide care either in or out of your house
- Nursery schools and preschools (excluding kindergarten)

**Note: As of January 1, 2011, your Flexible Spending Account will no longer reimburse for over the counter medications unless prescribed by a physician when dispensed.*

	Without FSAs	With FSAs
Gross Income:	\$30,000	\$30,000
FSA Contributions:	0	-5,300
Gross Income:	30,000	24,700
Estimated taxes:		
Federal:	-2,550*	-1,755*
State:	-900*	-741*
FICA:	-2,295	-1,890
After-tax earnings:	24,255	20,314
Eligible out-of-pocket:		
Medical and dependent care expenses:	-5,300	0
Remaining spendable income:	\$18,955	\$20,314
Spendable income increase:		\$1,359



Who is Eligible for Dependent Care Services?

In order for dependent care services to be eligible, they must be for the care of a tax dependent child under age 13 who lives with you, or a tax dependent parent, spouse, or child who lives with you and is incapable of caring for himself or herself. The care must be needed so that you and your spouse (if applicable) can go to work. Care must be given during normal working hours - Saturday night babysitting does not qualify - and cannot be provided by another of your dependents.

Is the FSA Program Right for Me?

Flexible Spending Accounts are beneficial for anyone who has out-of-pocket medical, dental, vision, hearing, or dependent care expenses beyond what his or her insurance plan covers.

It's easy to determine if a FSA will save you money. At enrollment time, you will need to determine your annual election amount. Estimate the expenses that you know will occur during the year. These include out-of-pocket expenses for yourself and anyone claimed as a dependent on your taxes. If you had \$100 or more in recurring or predictable expenses, the accounts can help you stretch your dollars.

How Do the Accounts Work?

If you decide to enroll in one or both of the accounts, your contributions are taken out of each paycheck - before taxes - in equal installments throughout the plan year. These dollars are then placed into your FSA. When you have an eligible health care or dependent care expense, you must submit a claim form along with an itemized receipt to be reimbursed from your account.

The Health Care Reimbursement FSA will reimburse you for the full amount of your annual election (less any reimbursement already received), at any time during the plan year, **regardless of the amount actually in your account.**

The Dependent Care FSA will only reimburse you for the amount that is in your account at the time you make a claim.

What is the Flexible Spending Account grace period?

The grace period is a provision under federal law that allows your plan to extend the time Flexible Spending Account participants have for incurring eligible expenses and withdrawing funds from their Health Care and/or Dependent Day Care Spending Accounts. Under this provision, participants who have funds remaining in their accounts at the end of the plan year can use those funds to pay expenses they incur during the Grace Period as defined by your plan. Your deductions will be made during the 12 months of your plan year. You will have 12 months plus your Grace Period to incur expenses for reimbursement.

Whose expenses can be reimbursed?

Health Care FSA - Money in the FSA can be used to reimburse yourself for medical and dental expenses incurred by you, your spouse or eligible dependents (children (up to age 26), siblings, parents and other dependents as defined in your plan documents).



Important: Use it or Lose It!

If you decide to contribute to the Health Care Reimbursement FSA or the Dependent Care FSA, you must carefully determine your annual election amount and your spending during the plan year. According to IRS regulations, the money you set aside must be used for expenses incurred during the plan year in which you make the election (including grace period). Any funds left in the account at the end of the year will be forfeited (including grace period).

Important: Debit Cards & OTC Medications

FSA debit cards used at the point of sale when used to purchase OTC medicines and drugs other than insulin, will require a physician's prescription for the sale to be approved.

Medical Eligible and Ineligible Expenses

Prescription Drugs

Allowable Expenses:

- Prescription drugs or insulin
- Birth control drugs (prescribed)
- Vitamins (as prescribed by a physician and not available over the counter)
- Smoke cessation drugs (prescribed)

Expenses specifically disallowed by the IRS or courts:

- Cost of illegal drugs
- Prescription drugs used for cosmetic purposes (e.g., hair loss)

Over the Counter Drugs

(With a physician's prescription per the Patient Protection Act)

Allowable expenses:

- Pain relievers
- Cold and flu medications
- Allergy relievers
- Heartburn relievers
- Antifungals
- First aid topicals
- Stomach remedies
- Nicotine replacement therapies
- Vitamins (non prescribed) with a letter of medical necessity from your physician

NOTE: You must provide a receipt that has the description for the over the counter product you wish to be reimbursed for.

Medical Equipment

Allowable expenses:

- Wheelchair or autoeette (cost of operating/maintaining)
- Crutches (purchased or rented)
- Breast Pumps or Breast Feeding Supplies
- Special mattress & plywood boards prescribed to alleviate arthritis
- Oxygen equipment and oxygen used to relieve breathing problems that result from a medical condition
- Artificial limbs
- Support hose (if prescribed by physician)
- Wigs (where necessary to mental health of individual who loses hair because of disease)
- Excess cost of orthopedic shoes over cost of ordinary shoes

Expenses specifically disallowed by the IRS or courts:

- Wigs, when not medically necessary for mental health
- Vacuum cleaner purchased by an individual with dust allergy
- Mechanical exercise device not specifically prescribed by physician

Dental & Orthodontic Care

Allowable expenses:

- Dental Care
- Artificial teeth/Dentures
- Cost of fluoridation of home water supply advised by dentist
- Braces, orthodontic devices

Expenses specifically disallowed by the IRS or courts:

- Cosmetic Dental Procedures including bonding, whitening or teeth bleaching

Fees / Services

Allowable expenses:

- Physician's fees
- Obstetrical expenses
- Hospital services
- Nursing services for care of a specific medical ailment
- Cost of a nurse's room & board if paid by the taxpayer where nurse's services qualify
- The Social Security tax paid with respect to wages of a nurse where nurse's services qualify
- Surgical or diagnostic services
- Services of chiropractors and osteopaths
- Anesthesiologist's fees
- Dermatologist's fees
- Gynecologist's fees
- Christian Science practitioner fees
- Childbirth classes taken for the purpose of preparing a woman for her active role in the childbirth process

Expenses specifically disallowed by the IRS or courts:

- Payments to domestic help, companion, babysitter, chauffeur, etc. who primarily render services of a non-medical nature
- Nursemaids or practical nurses who render general care for healthy infants
- Fees for exercise, athletic, or health club membership when there is no specific health reason for needing membership
- Marriage counseling provided by clergy
- Payments related to elective cosmetic surgery

Assistance for the Handicapped

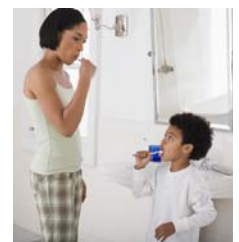
Allowable expenses:

- Cost of guide for a blind person
- Cost of note-taker for a deaf child in school
- Cost of Braille books and magazines in excess of cost of regular editions
- Seeing eye dog (cost of buying, training, and maintaining)
- Hearing-trained cat or other animal to assist deaf person (cost of buying, training and maintaining)
- Household visual alert system for deaf person
- Excess costs of specifically equipping automobile for handicapped person over cost of ordinary automobile; device for lifting handicapped person into automobile
- Special devices, such as tape recorder and typewriter; for a blind person

Physicals

Allowable expenses:

- Routine & preventive physicals
- School & work physicals



Dependent Care Reimbursement

The Dependent Care Reimbursement Account has been made available to you by your employer through Sections 125 and 129 of the Internal Revenue Code.

Dependent Care Reimbursement permits you to be reimbursed, on a pre-tax basis, for the cost of child care expenses (the child must be under 13 years of age), or for the care of an incapacitated spouse or dependent when those services make it possible for you (and your spouse) to work. To be eligible to use this account, you must be at work during the time your eligible dependents are receiving the care.

You qualify to use this account if:

- you are a single parent; or
- you have a working spouse; or
- your spouse is a full-time student for at least five months during the year while you are working; or
- your spouse is disabled and unable to provide for his or her own care.

The Dependent Care Reimbursement Account has been designed to meet IRS guidelines. Your expenses will be eligible for reimbursement if the services would be considered an eligible credit under the Internal Revenue Code.

Expenses may be reimbursed for services provided:

- Inside or outside your home by anyone *other than*
 1. your spouse,
 2. someone who is your dependent for income tax purposes,
 3. one of your children under the age 19; or
- in a dependent care center or a child care center (if the center cares for more than six children, it must comply with all applicable state and local regulations); or
- by a housekeeper whose services include, in part, providing care for an eligible dependent; or
- Day camp expenses (overnight camp is **not** eligible)

A taxpayer must provide the name, address and taxpayer identification number of the dependent care provider. If the provider is exempt from federal income taxation under Code Section 501 (c)3, the taxpayer is not required to report this number.

To make sure your situation and the type of care being provided meet IRS requirements, refer to IRS Publication 503 and Form 2441 which is available at your local post office, public library, or IRS office. They are also located on the web at www.irs.gov.

You must decide during your enrollment period how much money you want to set aside for dependent care assistance on a pre-tax basis. This amount cannot be changed during the plan year unless you have a change on account of and consistent with a change in family status such as:

- marriage
- divorce
- death of spouse or child
- birth or adoption of child
- significant change in your spouse's employment status

The maximum amount you may contribute from your salary to the Dependent Care Reimbursement Account is the lesser of:

- one-half of your taxable income, or
- if you're married, your spouse's taxable income, or
- the maximum amount shown on your election form (if applicable)

Section 125 states that any money you have not used for reimbursement by the end of the plan year must be forfeited. So be sure to plan carefully. Budget only for those expenses you know will be incurred.

It may not always be to your best advantage to make use of your Reimbursement Account. For some people, the Federal Child Tax Credit may be a better option. For others, the Reimbursement Account is preferable. With whatever approach taken, you cannot use the same expenses for both the tax credit and Reimbursement Account. Further, the amount which taxpayer may take into account in calculating the Federal Child Tax Credit under Code Section 21 will be reduced, dollar-for-dollar, by any amounts excluded from income through the Reimbursement Account.



Dependent Care Eligible and Ineligible Expenses

Child Care Expenses

Allowable expenses:

- After school programs
- Babysitting (someone else's home) (licensed provider with Tax ID)
- Babysitting (in your home) (licensed provider with Tax ID)
- Before school programs
- Child care
- Nursery school
- Pre-school
- Sick child care
- Summer day camp

Expenses specifically disallowed by the IRS or courts:

- Dance lessons
- Educational services (other than pre-school)
- Kindergarten
- Language classes
- Piano lessons
- Private school tuition (for kindergarten and up)
- Sleep-away camp
- Transportation to and from eligible care
- Tutoring

Adult Care Expenses

Allowable expenses:

- Adult day care
- Elder care (in your home) (licensed provider with Tax ID)
- Elder care (outside your home) (licensed provider with Tax ID)
- Senior day care

Expenses specifically disallowed by the IRS or courts:

- Day nursing care*
- Medical care*
- Nursing home care*
- Transportation to and from eligible care

*May be eligible for reimbursement under the Medical Spending Account.



Flexible Spending Account (FSA) Worksheet

Healthcare Expenses

for expenses not covered by insurance

- Copays to doctor \$ _____
- Eligible over-the-counter items \$ _____
- Prescription drugs \$ _____
- Office visits & checkups \$ _____
- Prescribed eyeglasses \$ _____
- Contact lenses & supplies \$ _____
- Eye exams, surgery & LASIK \$ _____
- Dental cleanings, fillings & x-rays \$ _____
- Sealants, crowns, bridges & dentures \$ _____
- Braces, spacers & retainers \$ _____
- Wisdom teeth, implants & Oral Surgery \$ _____
- Psychologist & psychiatrist fees \$ _____
- Obstetrics & fertility \$ _____
- Lab tests & body scans \$ _____
- Chiropractic & podiatrist fees \$ _____
- Oxygen, insulin, syringes & supplies \$ _____
- Hearing aids, batteries & exams \$ _____
- Artificial limbs & braces \$ _____
- Arches & orthopedic shoes \$ _____
- Walkers, canes & wheelchairs \$ _____
- Physical & speech therapy \$ _____
- Weight-loss program (prescribed by doctor) \$ _____
- Quit-smoking program & medications \$ _____
- Alcoholism & drug treatment \$ _____
- Medical alert bracelet & fees \$ _____
- Reconstructive surgery (birth defect, disease) \$ _____
- Wigs for hair loss caused by disease \$ _____
- Special school for disabled child \$ _____
- Travel & mileage to doctor or hospital \$ _____

TOTAL #1 \$ _____

Dependent Care Federal Limits

Married Filing Jointly or Single: \$5,000 maximum allowable per year.
Married Filing Separately: \$2,500 per person maximum allowable per year.



Dependent Care Expenses

Necessary expenses that allow you to work. (Must be through a "licensed" daycare provider and tax I.D. number must be provided)

- Nanny & babysitter through age 12 \$ _____
- Pre-K or nursery school \$ _____
- Before & after school care through age 12 \$ _____
- Day camp through age 12 \$ _____
- Daycare for a disabled adult or child \$ _____
- Elder daycare for parent or dependent \$ _____

TOTAL #2 \$ _____

Estimated Annual Expenses & Tax Savings

Save between **#1** \$ _____
25% and 40% on
FICA, federal & **#2** \$ _____
state income tax
(in applicable **=** \$ _____
states)

Enter your tax: **x** _____ %

YOU SAVE: \$ _____

Based on national averages, you'll save 25% if your annual household earnings are less than \$30,000, 36% if you earn \$30,000 to \$60,000 or 40% if you earn more than \$60,000.

Federal and/or plan limits apply to all options. See your summary plan description for plan limits.

Here's How it Works

Below are three examples of how the Flexible Spending Account (FSA) can give you tax savings throughout the year.

EXAMPLE #1: Single parent + one child

<input type="checkbox"/> Copay to doctors & pharmacies	\$135
<input type="checkbox"/> Prescription drugs	\$480
<input type="checkbox"/> Qualified over-the-counter items	\$60
<input type="checkbox"/> Eye exam & LASIK	\$80
<input type="checkbox"/> Prescribed eyeglasses	\$200
<input type="checkbox"/> Dental services	\$160
<input type="checkbox"/> Quit smoking program	\$125
<input type="checkbox"/> Before and after school care & daycamp	\$5,000

(SAVES \$1,560 to \$2,496) **Total Budgeting Expenses: \$6,240**

EXAMPLE #2: Young couple + two children

<input type="checkbox"/> Copay to doctors & pharmacies	\$210
<input type="checkbox"/> Prescription drugs	\$520
<input type="checkbox"/> Qualified over-the-counter items	\$200
<input type="checkbox"/> Eye exam & LASIK	\$160
<input type="checkbox"/> Prescribed eyeglasses	\$400
<input type="checkbox"/> Dental services	\$320
<input type="checkbox"/> Sealants, crowns & bridges	\$200
<input type="checkbox"/> Braces, spacers & retainers	\$1,500
<input type="checkbox"/> Chiropractic & podiatrist fees	\$910
<input type="checkbox"/> After school care, daycamp & pre-K	\$4,080

(SAVES \$2,125 to \$3,400) **Total Budgeting Expenses: \$8,500**

EXAMPLE #2: Mature couple + dependent elder

<input type="checkbox"/> Copay to doctors & pharmacies	\$360.00
<input type="checkbox"/> Prescription drugs	\$960.00
<input type="checkbox"/> Qualified over-the-counter items	\$300.00
<input type="checkbox"/> Eye exam & LASIK	\$800.00
<input type="checkbox"/> Prescribed eyeglasses	\$2,120.00
<input type="checkbox"/> Dental services	\$340.00
<input type="checkbox"/> Dentures, sealants, crowns & bridges	\$1,200.00
<input type="checkbox"/> Chiropractic & podiatrist fees	\$910.00
<input type="checkbox"/> Physical therapy	\$1,560.00
<input type="checkbox"/> Quit smoking program	\$569.00
<input type="checkbox"/> Weight loss program (for specific disease)	\$520.00
<input type="checkbox"/> Elder daycare for dependent adult	\$5,000

(SAVES \$3,635 to \$5,816) **Total Budgeting Expenses: \$14,539.00**



Below is an example of how a typical employee's take home pay will increase as a result of participating in the FSA plan. She pays her insurance premiums, health and daycare expenses through the plan with tax-free dollars and she actually saves \$100 each month!

Her paycheck without the plan		Her paycheck with the plan	
Salary	\$2,000	Salary	\$2,000
Insurance Premium	-\$100	Insurance Premium*	-\$100
Health & daycare expenses	-\$300	Health & daycare expenses	-\$300
FICA, federal & state taxes	-\$500	Adjusted earnings	\$1,600
		FICA, federal & state taxes	-\$500
Net pay without the plan	\$1,100	Net pay with the plan	\$1,200
		*SAVED \$100!	



How your Prepaid Benny Card Works

We are excited to offer the Benny™ Prepaid Benefits Card for use with our Flexible Spending Account Program.



Your Flexible Spending Account will be directly debited for eligible expenses, eliminating “out-of-pocket” cash payments and then waiting for reimbursement. It’s convenient and easy to use eliminating the need to fill out claim forms.

Over 80% of health care FSA expenses are automatically approved so, in most cases, you won’t need to submit claims or documentation for Benny card use. However, if you should need to submit a claim, please use the Kapnick Claim Form on the next page and always keep copies of your receipts and other supporting documentation.

Below is a table to help guide you when using your prepaid Benny™ card.

Benny™ Card Action	Type of Vendor or Type of Service	Helpful Hints
<p>No substantiation required.</p> <p>The Benny™ card will work without anything further from you. Please keep a copy of documentation just in case.</p>	<p>Health care providers with copays:</p> <p>Inpatient hospital copay Pharmacy Physician’s office Vision care providers Urgent care Prescriptions & other qualified over-the-counter items can be purchased.</p>	<p>Coinsurance is where the employee pays a percentage versus a flat copay. These may require you to submit supporting documentation. It’s important that you keep all of your supporting documentation.</p> <p>You will be notified if supporting documentation is required.</p>
	<p>Recurring expenses: by indicating expenses are recurring in exact equal amounts for the exact same provider on the Kapnick FSA claim form, you will not need to continue to send in supporting documentation and claim forms.</p>	<p>Examples include Dependent Care and monthly visits to certain types of health care providers.</p>
<p>May require supporting documentation</p>	<p>The Benny™ card can only be used at health care providers like dentists, doctors or vision care providers. If you use the Benny™ card, you will be notified if documentation is required for these common expenses:</p> <ul style="list-style-type: none"> ▪ Deductibles or copays. ▪ Spouse’s insurance out-of-pocket expenses. ▪ Caregivers (dependent care). 	<p>You will be notified if more information is required.</p> <p>To avoid having your card suspended, please submit requested documentation no later than 30 days after you have been notified.</p>
<p>Cannot use the Benny™ card</p>	<ul style="list-style-type: none"> ▪ Any non-qualified expense. ▪ Any non-participating provider, merchant or retailer not mentioned above. 	<p>If an item is a qualified expense for this plan year, you can use another form of payment and submit your claim with supporting documentation.</p> <p>Over-the-counter medications must have a doctor’s prescription submitted with the claim for reimbursement.</p>

For your convenience, you can view your account balance as well as monitor your card activity from the MyBenny card site. You can access MyBenny card anytime 24 hours a day, 7 days a week once you have activated your account. It’s as easy as **1, 2, 3!**

STEP #1

Go to www.kapnick.com

STEP #2

Click on **MyBenny card** located under **Quick Links**.

STEP #3

Links to log in, activate your card or contact us is are located on the bottom of the page.

Note: you can also access MyBenny card by using the Client Tools link.

How to Use Your Reimbursement Account

Claim Form Instructions

The following instructions deal with claim procedures that will enable you to submit claims for payment from your reimbursement account(s). Occasionally a question may arise about payment of your claims. If so, feel free to contact Kapnick Insurance Group at (800) 550-FLEX (3539).

How to Prepare a Claim for Medical Reimbursement

You should complete the *Employee Information* section of the Flexible Benefit Reimbursement Request Form, indicating your name, social security number and company name.

You should attach an itemized billing for each claim. Each billing must include the name of the patient, diagnosis, nature of services or supplies furnished, dates of services, and amount charged for each. It must also contain the provider's (e.g., doctor's) name and address. If you are covered under an HMO, please submit the receipt (original or copy) for office visits or prescription drug co-payments.

If you have medical, dental or vision coverage through a traditional group health plan, you may provide an explanation of benefits statement (EOB) showing what the insurance carrier has paid on charges. If you do submit an explanation of benefits form, you are not required to submit the original invoice for service(s).

If you have medical, dental or vision care expenses which are not eligible for reimbursement under any insurance plan, you may submit the itemized statement and note that this expense is not covered under your insurance plan.

How to Prepare a Claim for Dependent Care Reimbursement

You should complete the *Employee Information* section of the Flexible Benefit Reimbursement Request Form, indicating your name, social security number and company name.

You should complete the *Dependent Care* section of the Flexible Benefit Reimbursement Request Form and attach an itemized statement with each claim. Each statement must show the dates that the dependent care was rendered and the amount charged for this service. It must also contain the provider's name and social security number or tax identification number. If your provider is unable to prepare a statement with the requested information, you may have your provider sign and date the statement in the Dependent Care section.

How to Complete and Send in Your Form

Lastly, you need to sign and date the form and forward the completed claim form and all bills to Kapnick Insurance Group. **Please staple your receipts, invoice or explanation of benefits to the Flexible Benefit Reimbursement Request Form.**

Claims may be: 1) emailed to flex@kapnick.com; 2) faxed to (517) 264-6172; or 3) Mailed to Kapnick Insurance Group, 333 Industrial Dr., P.O. Box 1801, Adrian, MI 49221-7801.

Kapnick Insurance Group will attempt to process your claim within five (5) business days. You will receive reimbursement either by check (mailed to your home address) or, if you have elected and provided the necessary routing information, we will direct deposit to your checking or savings account. **Please allow time for mail.**



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