Flexible Spending Accounts – Medical Reimbursement and Dependent Care Accounts

Through the HealthFlex program, actively working participants have the option to elect to contribute a part of their compensation to tax-advantaged flexible spending accounts—one for medical care expenses (the Medical Reimbursement Account, MRA) and one for dependent day care expenses (the Dependent Care Account, DCA).

If you elect to participate in the MRA and DCA, you may contribute part of your compensation, i.e., set aside funds, on a before-tax basis**1** to reimburse yourself for certain eligible medical care and dependent day care expenses.

Flexible spending accounts can save you significant amounts on the cost of health care and dependent day care by allowing you to pay for qualified expenses on a tax-advantaged basis. However, the funds you set aside in flexible spending accounts are subject to certain restrictions in their use, as explained below, and are subject to the "use-it-or-lose-it" rule. Please be sure you understand all the implications of those rules by carefully reading this entire document.

When you elect to contribute to the MRA or DCA, you are choosing to contribute that amount over the applicable program year, which is a calendar year, not a conference or appointment year. If you enroll in the program mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the calendar year.

The Medical Reimbursement Account (MRA)

If you elect an MRA, you can elect to set aside part of your compensation on a before-tax basis[1] to pay for certain eligible medical care expenses that are not otherwise reimbursable from the group health plan component of HealthFlex or from some other source.

With an MRA, you may submit for reimbursement certain eligible out-of-pocket medical, pharmacy, dental and vision expenses incurred over the course of the program year. You also may submit for reimbursement through the MRA certain expenses incurred by your spouse or dependent children (even for qualified expenses for qualified dependents not covered under the HealthFlex medical plan). In addition, certain expenses for over-the-counter medications and medical supplies are reimbursable through the MRA.

To get an idea of the amount you may want to set aside in an MRA, begin with last year's medical, dental and vision bills. Will any of these recur? If so, add them to your estimate. You may then want to consider what types of expenses you can anticipate for the coming year, such as new eyeglasses, any co-payments or deductibles under the medical benefit option you elect. This will help you to estimate the amount of your compensation that you may want to set aside. For further information regarding eligible expenses, please call **Ceridian** at **877-799-8820** or visit the Web site at **www.ceridianbenifits.com**.

It is relatively easy to estimate your expenses for a MRA since you probably already know the cost of many services in advance. You may set aside $300 to $5,000 per calendar year.

Note: Ceridian, your flexible spending account administrator, refers to the Medical Reimbursement Account as the Health Care Flexible Spending Account.

[1] Salary reduction contributions should not be subject to Federal income or FICA tax withholdings. In some cases, salary reduction contributions may not be subject to certain state and local tax withholdings. Consult your tax advisor and plan sponsor.

The Dependent Care Account (DCA)

If you elect a DCA, you may elect to set aside part of your compensation on a before-tax basis[1] to reimburse yourself for certain eligible dependent day care expenses (even for qualified expenses for qualified dependents not covered under the HealthFlex medical plan).

With a DCA, you may submit for reimbursement certain expenses incurred for care of your dependents to enable you and your spouse to be gainfully employed. Dependent day care expenses may include expenses for summer day camp, babysitting services while you work or a day care center for children or dependent adults.

If you incur dependent day care expenses for your dependent children (age 12 and under) or your spouse or other dependents who are physically or mentally incapable of self-care, you may be reimbursed for certain eligible dependent day care expenses under the DCA.

Make sure to keep track of your dependent day care expenses and the provider's name, address and tax identification number (Social Security Number if it is a home provider). In addition to submitting this information to Ceridian to request your reimbursement, you may want to save a copy of this information for reference when you prepare your tax return.

It is relatively easy to estimate your expenses for a DCA since you probably already know the cost of the services in advance. Generally, you may set aside $300 to $5,000 per calendar year.

Dependent Care Account Election Limits

In a calendar year, the amount an employee can exclude from his or her income through salary deferrals to the DCA is limited to the smallest of the following:

1. $5,000 ($2,500 if the employee is married, but filing separately);
2. the employee's earned income; or
3. if the employee is married at the end of the taxable year, the spouse's earned income.

If the employee is married, but his or her spouse has no earned income, the spouse is deemed to have an earned income of $250 per month ($500 per month if there are two or more qualifying individuals) in each month that he or she is either a full-time student or incapable of self care.

The Use It or Lose It Rule

Your MRA and DCA account balances cannot carry over from one calendar year to the next. This prohibition is known as the "use it or lose it" rule. You do have a run-out period (Run Out Period) during which you may submit claims for reimbursement from FSA accounts incurred during the program year. You will have until the April 30 that immediately follows the end of a program year to submit all claims for that just-ended program year. Claims submitted after the Run Out Period deadline will not be reimbursed. All amounts remaining in MRA and DCA accounts after the end of the applicable Run Out Period are forfeited. HealthFlex uses such forfeited amounts to offset the administrative expenses of the program.

Grace Period

HealthFlex has established a grace period (Grace Period) for the MRA as permitted by the Internal Revenue Service. The Grace Period will be the 2½-month period immediately following the end of the program year. MRA expenses **incurred** during this Grace Period (i.e., expenses for health care services received from January 1 to March 15 of the year that immediately follows the end of the program year) may be reimbursed from the previous (just-ended) program year's MRA balance, if any, or from the current year's balance.

Prior to this rule change, participants could only request reimbursement for expenses that were incurred during the 365-day program year. Now, you have another 75 days after the end of a program year to incur claims and seek reimbursement, thus helping you 'use' your MRA balance rather than 'lose' it.

Expenses incurred during the Grace Period from January 1, 2009, until March 15, 2009, may be reimbursed from your 2008 MRA if it has a positive balance Otherwise they will be reimbursed from your 2009 MRA balance, if any.

In addition, the Grace Period will run concurrently with the Run Out Period described above. That means that after the end of the Grace Period on March 15, 2009, you will have only until April 30, 2009 to submit any and all claims incurred through March 15, 2009 for reimbursement from the 2008 program year MRA funds. Any claims submitted after April 30, 2009 that were incurred during the previous program year or the just-ended Grace Period will not be reimbursed from 2008 program year MRA funds. Eligible claims incurred during the Grace Period submitted after April 30, 2009 will be reimbursed from 2009 program year MRA funds, if any.

You must be an active MRA participant as of the last day of the program year in order to take advantage of the Grace Period for that program year. It is important to remember that you can still forfeit MRA funds if you do not incur enough expenses during the program year and the Grace Period to exhaust your MRA election.

Important: The Grace Period **does not** apply to the DCA. All claims under your DCA must be incurred during the applicable program (calendar) year and you must submit them for reimbursement no later than April 30 of the year that follows the applicable program year.

Helpful Reminders When Using Your MRA and DCA Accounts

1. The HealthFlex benefits program requires that you affirmatively elect a flexible spending account and elect the amount of funds you wish to set aside prior to each program year. If you make no election, your FSA elections will be zero.

2. When you incur an expense eligible for MRA reimbursement and you have not elected auto-claims processing[2], submit a separate claim form to Ceridian. Follow the instructions on the Ceridian Web site, **www.ceridianbenefits.com**, for filing a claim.

3. Provided that you remain eligible to have an MRA under the program, the total annual amount that you elected to contribute for the program year is available at any time during the program year (reduced by the amount of prior MRA reimbursements paid to you during the program year).

4. When you incur an expense eligible for DCA reimbursement, submit a separate claim form to Ceridian, along with proof of payment and the provider's tax identification number. Unlike the MRA, the amount of DCA reimbursement available at any time during the program year is limited to the amount credited to your DCA (reduced by the amount of prior DCA reimbursements paid to you during the program year).

[2]Auto-claims processing is a program through which your out-of-pocket medical expense claims are forwarded from your claims administrators for medical benefits (i.e., BlueCross BlueShield or United HealthCare), prescription drug benefits (i.e., Medco) and behavioral health benefits (i.e., United Behavioral Health) to Ceridian for automatic reimbursement of eligible claims.

5. To be considered for reimbursement, you must incur the expenses during the program year (or during the Grace Period for MRA Claims) for which your flexible spending account elections are effective. Expenses are considered incurred when services are performed, not when payment is made (subject to certain exceptions for orthodontia and eye glasses).

6. As of December 31 of any program year, if you are an active participant in HealthFlex and you have a positive balance in your medical reimbursement account (MRA), you can incur claims for eligible health care expenses for an additional time period from January 1 to March 15 immediately following the end of that program year. Those eligible claims may be reimbursed from the MRA balance from the just-ended program year. The extra time to incur claims is called the "Grace Period" and it applies only to the MRA, it does not apply to the dependent care account (DCA). You have until April 30 following the end of a program year to submit all eligible health care expenses incurred during that program year and it's Grace Period for reimbursement from your MRA. You have until April 30 following the end of a program year to submit all eligible dependent care expenses incurred during that program year for reimbursement from your DCA. For any program year, you will forfeit: a) any balance remaining in your MRA after April 30 that follows the end of that program year, and b) any balance in your DCA after April 30 that follows the end of that program year.

The amount you elect to contribute to each account is for a calendar year, not a conference or appointment year. If you enroll in the program mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the calendar year. If you terminate from HealthFlex, you have 90 days from the date of termination to submit all claims you incurred while you were a participant, e.g., before your date of termination.

7. Funds cannot be transferred between the MRA and DCA. Estimate your expenses so that you do not contribute more than you need. IRS regulations require that any funds remaining in your account at the end of the program year's Run-Out Period (e.g., April 30 following the end of the program year) be forfeited.

8. The plan administrator uses all amounts forfeited from participant DCA and MRA accounts to offset the administrative costs of the program.

9. You cannot change the amount that you elected to set aside in your reimbursement accounts during the program year. The terms of the program allow you to generally set aside between $300 and $5,000 to each type of account, to be deducted from your salary in equal amounts through the program year. However, under limited circumstances, certain events, called change of status events, may allow you to make certain election changes during the program year. Please contact the plan administrator or your plan sponsor for more information about change of status events.

10. If you become ineligible to participate in the MRA or DCA (for any reason, including retirement) during the program year, expenses incurred after your loss of such eligibility are not eligible for MRA or DCA reimbursement.

Important: There are important tax implications associated with electing to defer compensation to an MRA and DCA. Individuals should consult their legal, accounting, tax and other advisors before electing to participate in the MRA or DCA.

Salary reduction contributions will reduce your compensation for Social Security tax purposes. This means that your Social Security benefits could be decreased because of the decreased amount of compensation, which is considered for Social Security purposes.

For more information and copies of the reimbursement request forms, check the Ceridian Web site at **www.ceridianbenefits.com**.

This publication serves to provide you with general information regarding the MRA and DCA programs. The actual terms and conditions of the programs are contained in the programs' documents. If there is a conflict between the information contained in this publication and the programs' official documents, the programs' official documents will govern. The General Board reserves the right to amend, modify or terminate part or all of the programs at any time and the General Board does not make any commitment or guarantee that program contributions or benefits will be excludable from an individual's gross income for federal, state or local tax purposes.