

## Flexible Spending Accounts are smart ways to pay and save

The City of Memphis offers its active employees the opportunity to join the Flexible Spending Program (FSA). A FSA is a flexible way to help you pay for expenses that are not usually covered by your benefit plan. When you enroll in FSA, you decide how much you want to set aside from each paycheck before taxes are deducted. For every dollar you contribute to your FSA, you reduce your taxable income by that same amount, in other words you don't pay taxes on the money you set aside. This money is available for you to use all year long to pay for expected and unexpected out of pocket eligible expenses. Employees who do not choose to enroll when first employed will be able to enroll during the annual open enrollment process. **Please read all of the information so that you will be able to make an informed decision concerning the FSA enrollment.**

### Health Care Flexible Spending Accounts

With a health care FSA, it is important to:

- Consider the type of services you may need during the year
- Estimate the cost of the services
- Determine your pre-tax contributions to help meet those costs

While a health care FSA can help you pay for many health care services, IRS regulations do not allow you to use these funds to pay for health insurance premiums and cosmetic treatments. Services must be intended to treat or prevent a specific medical condition.

Examples of ineligible services include:

- Cosmetic surgery and supplies
- Dental bleaching
- Some medicines and vitamins
- Advanced payment on future medical care
- Over the counter drugs and supplies
- Babysitting, childcare and nursing service for a healthy baby

Some healthcare claims require that you complete a claim form and fax (or mail) it with your itemized receipt to CIGNA. Health care FSA reimburse eligible expenses up to the amount you choose to set aside over the entire year regardless how much you have actually deposited.

**How do I determine my out of pocket Health FSA Expenses?** To help you determine how much you want to save, you can visit [mycigna.com](http://mycigna.com) and use the FSA Savings Calculator to estimate your expenses. To be considered an eligible expense, the expenses must be for the diagnosis, cure, mitigation, treatment or prevention of disease and for treatments affecting any part or function of the body. A complete list of these expenses is available on IRS website, [www.irs.gov](http://www.irs.gov) in publication 502. The following are examples of eligible expenses:

Acupuncture  
Birth Control  
Co-payments and Deductibles  
Orthodontia Services  
Artificial Teeth

Glasses and Contact Lenses  
Hearing aids  
Laser eye surgery  
Dental/Vision Examination  
Smoking Program

Chiropractor Care  
Diabetic equipment  
Breast Reconstructive Surgery  
Long Term Care  
Weight Loss Programs

## **Dependent Care Flexible Spending Accounts**

A Dependent Care FSA can be used to pay for eligible day care expenses such as costs for a babysitter, day camps, childcare centers or elder care. The Dependent Care FSA allows you to continue to work, while also saving money. The IRS limits the amount you can contribute to a dependent care FSA. Dependent Care expenses must be related to care or services provided for children under age 13 or tax dependents that are mentally or physically incapable of caring for themselves.

This service is allowed as long as the individual is not your child under age 19, or anyone you or your spouse can claim as a dependent for federal income tax purposes.

Dependent Care FSA reimburse only up to the account balance on the date your claim is received. Claims exceeding the balance are reimbursed when there is enough in the account to cover them. It is important to know that a Dependent Care FSA cannot pay for care provided by another dependent. You cannot use FSA funds to pay one of your children to care for another.

### **Examples of ineligible services include:**

- Expenses you claim under the Federal Dependent Care Tax Credit
- Expenses you incur before opening your Dependent Care FSA
- Healthcare expenses you pay for your dependents
- Transportation to and from a care provider

### **Examples of eligible services include:**

- Licensed nursery schools
- After school programs
- Adult day care facilities under 13
- Qualified childcare centers
- Preschool tuition
- Day camps for dependent children
- Babysitters inside or outside the home while you are working
- Meals and lodging expenses provided for your caregiver

A complete list of these expenses is available on IRS web site at [www.irs.gov](http://www.irs.gov) in publication 503.

## **Important Points to Remember about your FSA**

There are FSA limits on what you can contribute — The Internal Revenue (IRS) or your employer may limit the amount of money you can contribute. The City of Memphis will allow an employee to contribute a minimum of \$200 up to the maximum allowed by the IRS. The limit for Healthcare FSA is \$2500 and \$5000 for Dependent Care Account.

The **“Use It or Lose It”** Rule - Whatever you decide to contribute to your FSA, make sure you use all of it by the end of the plan year. If you do not use it the remaining money will be forfeited (you will lose it). Read on to find information and tools to help you determine how much to contribute.

In 2005 the federal government introduced a “grace period” to give you more time to use your FSA dollars. This grace period reduces the worry you may have if you have dollars remaining at the end of the plan year. This grace period gives you an additional two and a half (2.5) months to spend funds after the plan year. You have from January 1 to March 15 to use the previous year FSA dollars on eligible expenses.

To use the Online Calculator for the FSA Calculation go to [www.mycigna.com](http://www.mycigna.com)

### **Under the Information Center:**

- Click on “Flexible Spending Account
- Click on “Calculate FSA Savings”

### **Determining Your Contribution**

Here are some important things to consider when deciding how much money you want to contribute to your FSA:

- Review your benefit plan information and visit [mycigna.com](http://mycigna.com) to learn which expenses qualify as eligible.
- Try to estimate the amount of money you expect to pay out of pocket for eligible expenses for the plan period. Visit the FSA Savings Calculator at [myuhc.com](http://myuhc.com).
- Consult your tax advisor, review your check stubs, records and receipts from the previous year if you know you will have similar purchases.
- Remember, any unused money at the end of the year will be forfeited, so it is important that you don't contribute more than you plan to use.

## **Frequently Asked Question about Flexible Savings Accounts**

### **Q. How does contributing to an FSA reduce my taxes?**

A. Your FSA contributions are deducted from your paycheck before any taxes are taken out. This means that you do not pay federal income tax or Social Security tax on the portion of your paycheck that you contribute to your FSA. You can use the online FSA Savings Calculator on [myuhc.com](http://myuhc.com) to see how contributing to a FSA will affect your taxes based on your personal situation.

**Q. Wouldn't it be the same by just taking a deduction on my income tax?**

A. According to the IRS only medical and/or dental expenses that exceed 7.5% of your adjusted gross income can be deducted from your income taxes. Most people do not have expenses high enough to qualify for this deduction. For work related dependent care expenses, the tax credit amount is determined by applying a percentage to your total dependent care expenses. According to the current tax structure, the tax credit may be more beneficial than a dependent care spending account if your family income is under \$25,000.

**Q. Can I change my election or stop contributing money into my spending account at any time throughout the year?**

A. Federal regulations state that once you have designated the amount, you cannot change your decision throughout the year unless you have a valid life status event, such as the birth of a child or other life events as stipulated by the Summary Plan Document.

**Q. What happens if I submit a claim for an amount greater than what I have contributed to my FSA for that year?**

A. When you submit an FSA claim for a health care expense, you will be reimbursed up to the full amount of your annual election, regardless of the amount of money that has been deposited into your account. If your Dependent Care FSA balance is less than the amount of your claim, you will only be reimbursed for the amount of money available in your account at that time. The remainders will be reimbursed once your future contributions are deposited into your Dependent Care FSA. This process lets you submit a claim only once and receive reimbursement as it becomes available, rather than be denied payment and be forced to resubmit the claim until it can be paid in full.

**Q. Can I transfer money from my Health Care FSA to my Dependent Care FSA or vice versa?**

A. No. Per the IRS regulations, the Health Care FSA and the Dependent Care FSA are treated as two separate accounts.

**Q. Can I use Dependent Care FSA for elder care?**

A. Yes. You can use the spending account for eligible elder care expenses so that you or your spouse can work, if you are responsible for at least 50% of the support of an elder parent or any person living with you who is physically or mentally incapable of self care. This person must be noted on your income tax statement as a legal dependent. You also can use the Dependent Care FSA if the care is needed because you work and your spouse is a full time student.

**Q. If I have someone caring for my children in my home instead of a daycare facility, do these expenses qualify for reimbursement from a Dependent Care FSA?**

A. You can include wages paid to a baby-sitter in or outside your home if the services are necessary in order for you or your spouse to work. Expenses also qualify for a Dependent Care FSA if you work and your spouse is a full time student. However, these services are not covered if the babysitter is someone you declare as a dependent.

**How to Get Reimbursed Quickly and Easily**

Reimbursing yourself from your FSA can be quick and easy. Here are some options to help your reimbursements go smoothly

**1. FSA claim forms are available on mycigna.com, through your employer, or by calling a Customer Care professional.** You will receive reimbursements from your FSA by check.

**2. Utilize the auto-rollover feature** If you have both medical coverage and a health care FSA through CIGNA, you may want to use auto-rollover and have the ability to manage it online at myuhc.com. With auto-rollover, claims are automatically submitted for reimbursement, practically eliminating the need to submit manual claims.

**3. Take advantage of direct deposit** You can have your FSA reimbursements deposited into the bank account of your choice. You can set up direct deposit through myCIGNA.com.

**4. Use the Consumer Accounts Card** The Consumer Accounts Cards is a debit card, similar to a credit card that allows you to quickly and conveniently access funds in your FSA. You can use it to pay for eligible expenses at the time of service and at locations that accept it. Payments are made directly to the doctor or the vendor initiating the transaction. One card will be mailed to the employee only but can be used for eligible expenses for dependents. The card must be activated prior to use. Members need to wait 1 business day after activation of card before use.

**Filing Claims** According to the IRS guidelines, a qualified expense is “incurred” at the time the service is provided, not when you are billed or when you actually pay for the service. Therefore, you can only file claims for eligible expenses incurred during the same plan year and you must receive and pay for health services before filing a claim for reimbursement. All dependent care claims require that you complete a claim form and fax/mail it with your itemized receipt to CIGNA.

If you have additional questions, please call Health Wellness and Benefits at 901-636-6800.