

Flexible Spending Accounts—Medical and Dependent Care Accounts

Through HealthFlex, actively working participants have the option to elect to contribute a part of their compensation to tax-advantaged (pre-tax) flexible spending accounts (FSAs)—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 or DCA, you may contribute part of your compensation, i.e., set aside funds, on a before-tax basis¹ to reimburse yourself for certain eligible medical care and dependent 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 pre-tax basis. However, the funds you set aside in flexible spending accounts are subject to certain restrictions on their use, as explained below, and are subject to the Internal Revenue Service (IRS) “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 plan year—which is a calendar year—not a conference or appointment year. If you enroll in the plan mid-year and elect to contribute to an MRA or DCA, your election will apply to the remaining portion of the calendar year.

Note: *HealthFlex flexible spending accounts are administered by WageWorks.*

The Medical Reimbursement Account (MRA)

If you elect an MRA (also called a health care FSA), you can elect to set aside part of your compensation on a before-tax basis¹ to reimburse yourself for certain eligible medical care expenses that are not otherwise reimbursed or reimbursable from the group health plan component of HealthFlex or from some other source. The entire amount set aside is available on the first day of the plan year, which can be useful to cover out-of-pocket expenses² before the deductible has been met. Paycheck deductions continue over the course of the year.

With an MRA, you may submit for reimbursement certain eligible out-of-pocket medical, pharmacy, dental and vision expenses incurred during the plan 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, if you have a doctor’s prescription, 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 expenses. 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 estimate the amount of your compensation that you may want to set aside into an MRA. For further information regarding eligible expenses, please call WageWorks at **1-877-WageWorks (1-877-924-3967)** or go to wespath.org, log into **HealthFlex/WebMD**, and select “**Reimbursement Accounts**” to reach the WageWorks Web page.

It is relatively easy to estimate your expenses for an MRA since you probably already know the cost of many services in advance. You may set aside \$300 to \$2,650 (2018) per calendar year.

¹ Salary reduction contributions are not subject to federal income tax 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.

² For a high-deductible health plan (HDHP), the MRA would be a *limited-use* MRA that may be used for dental and vision expenses only, until you notify WageWorks that the IRS-defined deductible has been met; then can be used for all eligible health care expenses. (2018 IRS-defined deductible: \$1,350 individual coverage/\$2,700 family coverage)

The Dependent Care Account (DCA)

If you elect a DCA, you may elect to set aside part of your compensation on a before-tax basis¹ to reimburse yourself for certain eligible dependent day care expenses (even for qualified expenses for qualified dependents who are not covered under the HealthFlex medical plan). The DCA applies only to expenses in that calendar year (i.e., **January 1 through December 31**).

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 younger) or for your spouse or other adult dependents who are physically or mentally incapable of self-care, you may be reimbursed for certain eligible dependent day care expenses under the DCA. Unlike the MRA, only the funds that have actually been deducted to date are available to reimburse expenses.

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 WageWorks to request your reimbursement, you may want to save a copy of this information for reference when you prepare your tax return.

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 if less than \$5,000; or
3. the spouse's earned income if the employee is married at the end of the taxable year.

If the employee is married and his or her spouse is either a full-time student or incapable of self-care and 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 the spouse is either a full-time student or incapable of self-care.

The Use It or Lose It Rule

Your MRA and DCA have certain "use it or lose it" rules, based on Internal Revenue Service (IRS) guidelines. This means that account balances not spent by the specified deadline will be forfeited. In other words, if you don't "use" your FSA money by the deadline, you will "lose" it. The "use it or lose it" rule applies to any unspent amount remaining for the DCA and to any amount over \$500 remaining for the MRA. (*See details below.*)

Important: Amounts remaining in MRA (over \$500) and DCA (any amount) accounts after the applicable deadlines will be forfeited due to the IRS "use it or lose it" rule. HealthFlex uses such forfeitures to offset the administrative expenses of the program.

Use it or lose it rules for MRA and DCA are different, as described below.

MRA Account (eligible health care expenses)

- You must spend all but \$500 of your MRA by **December 31 of the current plan year** or it will be lost. After December 31, you can carry over **up to \$500** remaining in your MRA account—to be spent by **December 31 of the following year**. *Any balance in your MRA account over \$500 as of December 31 of the following year will be forfeited.*

Claims for current plan year MRA expenses submitted after the deadline (**April 30 of the following year**) will not be reimbursed. Claims for the current plan year amount carried over to the following plan year must be submitted by **April 30 of the next following year** or they will not be reimbursed.

DCA Account (eligible dependent care expenses)

- You must incur all eligible expenses by **December 31** of the FSA year (for example: by December 31 for a current plan year DCA). There is no grace period or carry-over allowance for DCAs.

Claims must be submitted by **April 30** of the following year (for example: by April 30 of the following plan year for current plan year DCA expenses).

Special Rule for Those Who Retire or Cease Working

If you cease working during the plan year—whether due to retirement, termination of employment or a leave of absence—your coverage under the MRA and DCA ceases at the end of the month in which your last day of employment occurs.³ Only eligible expenses incurred *before the end of the month of your last day of employment* may be reimbursed from your MRA or DCA. Expenses incurred after your termination month are not reimbursable. Also, if your coverage terminates during the plan year you will have only **90 days** after the date your coverage ends to submit claims for eligible expenses incurred before your termination date (i.e., before and including the last day of the month in which your employment ends).

Helpful Reminders When Using Your MRA and DCA Accounts

1. HealthFlex requires that you affirmatively elect an FSA during the Annual Election period or when you join HealthFlex and elect the amount of funds you wish to set aside for each plan year. If you make no election for the upcoming plan year, your FSA elections for that plan year will be zero.
2. 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 plan 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 prior to the end of the plan year (e.g., retiring, terminating employment or leave of absence), **you have 90 days from the end of the month in which your date of termination occurs to submit all claims you incurred while you were a participant (i.e., before your date of termination).**
3. Provided that you remain eligible to have an MRA under the plan, the total annual amount that you elected to contribute for the plan year is available at any time during the plan year (reduced by the amount of prior MRA reimbursements paid to you during the plan year).
4. When you incur an expense eligible for DCA reimbursement, submit a separate claim form to WageWorks, 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 plan year is limited to the amount credited to your DCA as of the date of claim (reduced by the amount of prior DCA reimbursements paid to you during the plan year).
5. To be considered for reimbursement, you must incur the expenses during the plan year for which your FSA elections are effective. Expenses are considered incurred when services are performed, not when payment is made (subject to certain exceptions for orthodontia and eyeglasses).
6. There is no grace period for MRA funds elected. However, you may carry over *up to \$500* remaining in your MRA, to be applied to eligible expenses incurred during the following plan year. There is no grace period or carry-over allowance for unspent DCA funds in any plan year.
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 after applicable deadlines will be forfeited.
8. The plan administrator uses all amounts forfeited from participant DCA and MRA accounts to offset the administrative costs of the plan.
9. Normally, you cannot change the amount that you elected to set aside in your reimbursement accounts (FSAs) during the plan year. The terms of the plan allow you to generally set aside between \$300 and \$2,650 (2018) for the MRA, and between \$300 and \$5,000 for the DCA, to be deducted from your salary/paycheck in prorated amounts throughout the plan year. However, under limited circumstances, certain events (called change of status events, such as marriage or birth of a child) may allow you to make certain election changes during the plan 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 or termination) during the plan year, expenses incurred after your loss of such eligibility are not eligible for MRA or DCA reimbursement.

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

³ If your last day of employment occurs the first day of the month, your coverage under the MRA and DCA ceases at the end of the prior month.

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 **WageWorks** website after you log into HealthFlex/WebMD (**wespath.org** > select **HealthFlex/WebMD**, then click on “**HealthFlex Partners**” > “**WageWorks Reimbursement Accounts**”) or select “**HealthFlex Plan Benefits**” after you log into **HealthFlex/WebMD** and search in the **Reference Center**.

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’ Plan Document, Summary Plan Description and the HealthFlex Benefit Booklet (collectively, the “Documents”) maintained by Wespath Benefits and Investments (Wespath). If there is a conflict between the information contained in this publication and the Documents, the terms of the Documents shall control. Wespath reserves the right to amend, modify or terminate part or all of the programs at any time, and Wespath 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.