

Flexible Spending Account Information Sheet for Employees

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 below 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.

	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

*Assumes standard deductions and four exemptions.

**Varies, assume 3%.

The example above is for illustrative purposes only. Every situation varies and we recommend that you consult a tax advisor for all tax advice.

Ulster County Flexible Spending Accounts Health Care Reimbursement FSA

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. The annual maximum contribution to the Health Care Reimbursement FSA is \$1,500.00.

Eligible 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 example eligible and ineligible expenses, or refer to *IRS Publication 502, Medical and Dental Expenses* available at <http://www.irs.gov/publications/p502/index.html>

Dependent Care FSA

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)

Eligible Expenses

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?

Ulster County's 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.

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 (January 1 to December 31) in which you make the election. Any funds left in the account at the end of the year will be forfeited.

You will receive regular statements that will help you track the dollars you have left in your accounts. You have until March 31, 2011 to submit any claims for expenses incurred during the 2010 Plan Year.

To calculate your potential savings when using an FSA, visit <http://www.asiflex.com/Calculator/Tax-Savings-Calculator.htm> or <http://benefits.bankofamerica.com/boacdhpweb/fsaCalculator.do>.

ULSTER COUNTY

Flexible Spending Account

Eligible Medical Expenses

Your Health Care Reimbursement Flexible Spending Account lets you pay for medical care expenses not covered by your insurance plan with pre-tax dollars. The Internal Revenue Service defines medical care expenses as amounts paid for the diagnosis, cure, or treatment of a disease, and for treatments affecting any part or function of the body. The expenses must be primarily to alleviate a physical or mental defect or illness.

The products and services listed below are examples of medical expenses eligible for payment under your Health Care Reimbursement FSA, to the extent that such services are not covered by your medical and dental insurance plan. This list is not all-inclusive; additional expenses may qualify, and the items listed below are subject to change in accordance with IRS regulations.

Dental Services

- ✓ Crowns/Bridges
- ✓ Dental X-rays
- ✓ Dentures
- ✓ Exams/Teeth Cleaning
- ✓ Extractions
- ✓ Fillings
- ✓ Gum Treatment
- ✓ Oral Surgery
- ✓ Orthodontia/Braces

Insurance Related Items

- ✓ Copay Amounts
- ✓ Deductibles
- ✓ Pre-existing Condition Expenses (medical)
- ✓ Private Hospital Room Differential

Lab Exams/Tests

- ✓ Blood Tests
- ✓ Cardiographs
- ✓ Diagnostic
- ✓ Laboratory Fees
- ✓ Metabolism Tests
- ✓ Spinal Fluid Tests
- ✓ Urine/Stool Analyses
- ✓ X-rays

Medications

- ✓ Insulin
- ✓ Prescribed Birth Control
- ✓ Prescribed Vitamins (to treat specific disease and not available over-the-counter)
- ✓ Prescription Drugs

Obstetric Services

- ✓ Midwife Expenses
- ✓ OB/GYN Exams
- ✓ OB/GYN Prepaid Maternity Fees (reimbursable after date of birth)
- ✓ Post-natal Treatment/Pre-natal Treatment (excludes over-the-counter vitamins)

- ✓ Pre-natal vitamins (prescription only)

Practitioners

- ✓ Allergist
- ✓ Chiropractor
- ✓ Christian Science
- ✓ Dermatologist
- ✓ Homeopath
- ✓ Naturopath
- ✓ Osteopath
- ✓ Physician
- ✓ Psychiatrist
- ✓ Psychologist

Other Medical Treatments or Procedures

- ✓ Acupuncture
- ✓ Alcoholism (inpatient treatment)
- ✓ Cosmetic Surgery (if medically necessary)
- ✓ Drug Addiction
- ✓ Hearing Exams
- ✓ Hospital Services
- ✓ Infertility
- ✓ In-vitro Fertilization
- ✓ Norplant Insertion or Removal
- ✓ Patterning Exercises
- ✓ Physical Examination (if not employment related)
- ✓ Physical Therapy
- ✓ Pregnancy Test (over-the-counter)
- ✓ Rolifing
- ✓ Smoking Cessation Programs
- ✓ Speech Therapy
- ✓ Sterilization
- ✓ Transplants (including organ donor)
- ✓ Treatment for Handicapped
- ✓ Vaccinations/Immunizations
- ✓ Vasectomy
- ✓ Well Baby Care

Other Medical Equipment, Supplies, and Services

- ✓ Abdominal/Back Supports
- ✓ Allergy Medication (over-the-counter)
- ✓ Ambulance Services

- ✓ Antacids (over-the-counter)
- ✓ Arches/Orthopedic Shoes
- ✓ Cold Medications (over-the-counter)

- ✓ Contraceptives
- ✓ Counseling
- ✓ Crutches
- ✓ Guide Dog (for visually/hearing impaired person)
- ✓ Hearing Aids and Batteries
- ✓ Hospital Bed
- ✓ Learning Disability (special school/teacher)
- ✓ Medic Alert Bracelet or Necklace
- ✓ Mileage to/from Physician Visit
- ✓ Oxygen Equipment
- ✓ Pain Relievers (over-the-counter)
- ✓ Prescribed Medical and Exercise Equipment
- ✓ Prosthesis
- ✓ Splints/Casts
- ✓ Support Hose (if medically necessary)
- ✓ Syringes
- ✓ Transportation Expenses (essential to medical care)
- ✓ Tuition Fee at Special School for Disabled Child
- ✓ Wheelchair
- ✓ Wigs (hair loss due to disease)

Vision Services

- ✓ Artificial Eyes
- ✓ Contact Lenses
- ✓ Contact Lens Solution
- ✓ Eye Examinations
- ✓ Eyeglasses
- ✓ Laser Eye Surgeries
- ✓ Ophthalmologist
- ✓ Optometrist
- ✓ Prescription Sunglasses
- ✓ Radial Kerotomy

Please attend at your convenience to ask questions and complete your annual enrollment

Medical Flexible Spending Account Questions & Answers Over-the-Counter Medicines and Drugs

Q. How does the new IRS ruling regarding Over-the-Counter (OTC) drugs impact my medical flexible spending account (FSA)?

A. With only a few exceptions, previously a medical FSA could reimburse medicines and drugs only if they were available with a prescription. With the new IRS ruling, and if certain requirements are met, a medical FSA can reimburse medicines and drugs that are available without a prescription. (Please note: OTC medicines and drugs are still not deductible for federal income tax purposes.)

Q. When is the change effective?

A. We will accept claims for Over-the-Counter medicines and drugs purchased on or after January 1, 2010.

Q. What documentation is needed to submit for reimbursement of eligible OTC drugs?

A. You must submit an itemized receipt along with your completed Claim for Reimbursement form showing the following:

- Name of provider (i.e. CVS, Eckerd, Price Chopper, Rite Aid)
- Date of purchase
- Description of the item purchased
- Dollar amount paid

Acceptable receipts must have this information pre-printed by the provider. All items purchased must be for use by you, your spouse or your eligible dependent(s).

Q. What requirements must be met for an OTC drug to be eligible for reimbursement?

A. The following requirements must be met for eligible reimbursement:

- The item must be a medicine or drug used for the “diagnosis, care, mitigation, treatment or prevention of disease, or the purpose of affecting any structure or function of the body”
- The item must not be used for general health or cosmetic purposes
- The item must be used by the medical FSA participant, their spouse or eligible dependent(s)
- The expense must be for medical care during the current Plan Year

Q. What OTC items are not eligible for reimbursement?

A. Items are not eligible for reimbursement if they are normally used for general health (i.e. toothpaste, regular or electronic toothbrushes, mouthwash, lotion, shampoo) or are cosmetic in nature (i.e. hair loss treatments, teeth bleaching/whitening products).

Q. Some OTC drugs can be used for medical purposes or for general health/cosmetic purposes. Are these dual-purpose items reimbursable?

A. Any claim for a dual-purpose item must be accompanied by additional supporting documentation from a medical practitioner. Documentation must:

- Be on the medical practitioner's letterhead or prescription form
- Be dated within the current Plan Year
- Include the specific diagnosis (the specific medical condition being treated)
- Indicate that the item being purchased will directly impact the specific medical condition and indicate the length of time the OTC is to be used
- Include the medical practitioner's signature

A new letter from the medical practitioner is required each Plan Year.

Q. Can large quantities of OTC medicines or drugs be purchased?

A. Reasonable quantities of OTC medicines and drugs are reimbursable if purchased for either existing or imminent medical conditions. If large quantities are necessary for the treatment of an existing condition, documentation from a medical practitioner is required.

Q. How do I get additional information?

A. The attached summary provides additional information on the reimbursement status of OTC medicines and drugs. For questions regarding your flexible spending account program, please contact Carrie-Anne Goyer of Rose and Kiernan's Employee Benefits Management Group at (518) 244-4243 or by e-mail at cgoyer@rkinsurance.com.

Flexible Spending Accounts Commonly Asked Questions

Q. What do I need to do to make sure the claim I am submitting will be processed?

A. When submitting receipts for office visits, prescriptions, dental services, vision services, etc., please make sure your receipt states:

- ◆ **Patient's name**
- ◆ **Date of service**
- ◆ **Specific type of service**
- ◆ **Dollar amount incurred.**

If you have dental insurance, the EOB (Explanation of Benefits) from your dental carrier is the receipt to submit since it states all four items needed for reimbursement.

If you have vision insurance, an itemized receipt with the above four items must be on your receipt plus the estimated insurance benefit received.

If the receipt is for Over-the-Counter items purchased, the receipt must be pre-printed with the following:

- ◆ **Provider's name** (CVS, Rite Aid, Eckerd, Wal-Mart, etc.)
- ◆ **Description of item**
- ◆ **Date of purchased**
- ◆ **Dollar amount paid** (dollar amount minus any coupons, discounts)

Finally, please make sure your claim form is filled out properly with Employer's name, your name, social security number, listing of the receipts submitted and always sign the bottom of the claim form.

Q. Are cancelled checks, credit card receipts and/or statements acceptable?

A. Reimbursement from your flexible spending account is based on the date the services were rendered (incurred), not when payment was made. The IRS has determined that since cancelled checks and credit card receipts/statements do not indicate the service or the patient's name who received the service, these receipts are not acceptable forms of documentation for Flex claims.

Q. Can I submit register receipts for pharmacy prescriptions?

A. In order to receive reimbursement for prescriptions, the receipt must state the patient's name, date the prescription was filled, the type of medication or NDC number and dollar amount incurred. Since register receipts only show payments being made, they cannot be accepted as proper documentation. You may request from your Pharmacy, a computer generated report for the prescriptions filled for a specific time period which is acceptable documentation.

Q. How can I have the vitamins my physician prescribed to me covered through my Flex account?

A. Vitamins are generally not covered by the Flex Plan if they are taken to "maintain good health". However, vitamins can be reimbursed if they are needed to treat a **specific** medical condition. In this case, a letter from your physician stating the medical condition being treated by the vitamins is acceptable. The requirements of the proper documentation can be found on our website at www.rkinsurance.com/groupbenefits/otcq&a.pdf

Should you have any questions regarding receipts or submitting a claim, please feel free to contact Carrie Anne Goyer at Rose and Kiernan at 518-244-4243 or by e-mail at cgoyer@rkinsurance.com. If a spouse is calling on your behalf, please remember a HIPAA authorization form must be on file in order for Rose and Kiernan to release any information regarding your account.

Medical Flexible Spending Account Reimbursement Summary

Over-the-Counter Medicines and Drugs

Ineligible OTC Items <i>(Not reimbursable)</i>	Eligible OTC Items <i>(Reimbursable with itemized receipt)</i>	Dual-purpose Items <i>(Require itemized receipt and medical practitioner diagnosis/recommendation)</i>
<p>Cosmetics</p> <p>Diapers and wipes</p> <p>Diet and specialty foods and drinks (i.e. Slimfast), even with a medical diagnosis</p> <p>Dietary supplements (i.e. vitamins**, weight loss supplements, herbal supplements**, and fiber supplements)</p> <p>Face creams</p> <p>Feminine products (i.e. tampons, pads, liners, douche)</p> <p>Foot care products such as shoe liners, bunion & corn pads and removers</p> <p>Hair loss treatments</p> <p>Lip balms (ex. Chapstick, Blistex)</p> <p>Lotions/moisteners</p> <p>Mouthwashes</p> <p>Oral hygiene products (floss, breath strips, efferdent)</p> <p>Shampoos</p> <p>Soaps (anti-bacterial or others)</p> <p>Teeth whitening products</p> <p>Toiletries (hair products, deodorant)</p> <p>Toothbrushes (regular or electric)</p> <p>Toothpaste</p>	<p>Allergy medicines (i.e. Claritin)</p> <p>Analgesics/pain relievers (i.e. aspirin, Advil, Tylenol)</p> <p>Anti-itch medicines (i.e. Benadryl, Caladryl, Cortizone)</p> <p>Antihistamines</p> <p>Blood Pressure Monitors & Supplies</p> <p>Cold medicines, cough syrups, nasal sprays</p> <p>Condoms</p> <p>Decongestants</p> <p>Diaper Rash Ointment</p> <p>First Aid including bandages, cream, & related products</p> <p>Gastrointestinal aids (i.e. antacids, laxatives)</p> <p>Hemorrhoid creams</p> <p>Humidifiers/Vaporizers (Will qualify if for medical uses)</p> <p>In-home testing products (i.e. pregnancy, UTI, HIV test kits)</p> <p>Lice treatments</p> <p>Motion sickness pills</p> <p>Nasal sprays for congestion</p> <p>Ointments for muscle/joint pain (i.e. Bengay)</p> <p>Ophthalmic products (contact lenses supplies, artificial tears, eyeglasses)</p> <p>Rehydration Solution (Pedialyte)</p> <p>Sinus medications</p> <p>Sleeping aids</p> <p>Smoking cessation products (i.e. nicotine gum or patches)</p> <p>Suppositories</p> <p>Topical antibiotics (i.e. triple antibiotic ointment, bacitracin)</p> <p>Topical ointments for gingivitis</p> <p>Topical sprays (i.e. Chloraseptic)</p> <p>Thermometers</p> <p>Throat lozenges</p> <p>Vapor rubs</p> <p>Wart remover medications</p> <p>Yeast infection creams (i.e. Monistat)</p>	<p>Acne treatments</p> <p>Fiber supplements (to treat acute constipation)</p> <p>Hormone therapy</p> <p>Incontinence supplies (i.e.. Depends)</p> <p>Medicated shampoo (treatment of a scalp condition)</p> <p>Nasal sprays for snoring</p> <p>Nasal Strips - to treat nasal congestion due to cold or sinus; not for sports, snoring</p> <p>Nutritional supplements (where foods are not tolerated)</p> <p>Orthopedic shoe inserts</p> <p>Sunscreen **</p> <p>Vitamin and herbal supplements (specific to a medical condition or deficiency) One A Day not eligible</p> <p>Weight loss drugs (but not food items)</p>

** On dual-purpose list; may be reimbursable with additional documentation

***This list is for illustrative purposes only and is subject to change

