

# Medaille College

Flexible Spending  Account Benefit Plan

**Healthcare Reimbursement Account (HRA)  
Dependent Care Reimbursement Account (DCA)**

**Independent Health Corporation  
FSA Administration  
511 Farber Lakes Drive  
Buffalo, NY 14221  
(716) 504-1468 or (800) 258-3348  
FAX (716) 774-8092**

**If you have any medical, dental, vision or prescription out-of-pocket expenses and are looking for a way to save money, please take a few moments to review this brochure.**

**1. What is a Flexible Spending (Reimbursement) Account?**

Section 125 of the Internal Revenue Code allows employees to elect to have amounts withheld from their paychecks and paid into "Spending Accounts". Employers can then release amounts from each employee's account to provide a specified type of benefit such as medical or dependent care. Amounts set aside into these accounts are tax-free to the employee both when withheld from the employee's paycheck and when paid to the employee as a reimbursement with regard to expenses incurred for qualified benefits.

**The Flex Plan Components:**

1. Healthcare Reimbursement Account

The Company is allowing all full time employees to make deposits into a Healthcare Account on a pre-tax basis. You can use these pre-tax dollars to pay for out-of-pocket medical, dental and vision expenses that are not covered under your Health Plans and are considered deductible by the Internal Revenue Service. The maximum amount you can deposit into the account is \$ **3,000.00**

2. Dependent Care Reimbursement Account

Each full time employee has the option of depositing up to \$5,000 per year on a pre-tax basis, into a Dependent Care Account to pay for qualified dependent care expenses.

3. Healthcare Premium Reduction Account

The Premium Reduction Account allows eligible employees to save taxes on the portion of the medical and dental premium you pay through payroll deduction.

**2. What are Pre-Tax Dollars?**

Pre-Tax dollars are the dollars you contribute to your Employee Spending Account before taxes are levied against your income. Your contributions are subtracted from your gross salary and then taxes are withheld. The amount you choose to deposit into the "Spending Account" will not have Federal Income, State Income, and Social Security taxes deducted.

**3. What is the cost to me to participate in the Plan?**

Aside from your voluntary pre-tax contribution, there is no charge or costs involved to participate in the Plan.

**4. To what age are my dependent children covered?**

The dependent eligibility rules for the Flexible Spending Program follow the same rules as your Medical Plan.

**5. For purposes of a Dependent Care Reimbursement Account, who is a dependent?**

Any person who either: (1) may be claimed as a dependent on the employee's tax return and who is under age 13 or requires full-time care because of physical or mental incapacity (for example, a disabled spouse, child or parent); or (2) is the spouse of the employee and is physically or mentally incapable of caring for himself or herself.

**6. If I choose not to enroll during the initial enrollment, when can I enroll?**

Open enrollment will be the following January 1st, unless you have a change in family status.

**7. What about changes or withdrawals during the Plan Year?**

- Once an election for deferral has been made, you cannot change the amount unless one of the following occurs:
- > Commencement or termination of employment of employee or employee's spouse.
  - > Switches from part time to full times or vice versa by the employee or the employee's spouse.
  - > A significant change in the employee or spouse's health coverage attributable to the spouse's employment.
  - > An unpaid leaves of absence taken by the employee or the employee's spouse.
  - > Change in family status, such as divorce, marriage, birth of a child, adoption, or a death in the immediate family.
  - > A new form must be completed within 31 days of the qualifying event.

**8. If I am disabled or on vacation, do I continue to contribute into the plan?**

Yes, if you are receiving sick pay or vacation pay. No, if you are not being paid. If you are on unpaid leave of absence, your contributions to the employee spending account cease. Your account(s) will be reduced by the dollar amounts not contributed during your unpaid leave.

**9. Can I continue to use the plan once I terminate employment?**

Yes. The monies carried over after terminations are available from your benefit payments throughout the end of the year, however, the dates of service eligible for reimbursement must be incurred prior to the termination date. Pre-tax contributions will discontinue with your last paycheck. Under the provisions of COBRA, you can continue your contributions to your Healthcare Account on an after-tax basis.

**10. Can new employees join throughout the year?**

Yes, a newly hired full time employee will be eligible to participate if an election is made within thirty (30) days of his or her hire date. An employee who elects to participate within their eligibility period will become effective on the first day of the following month, following the date of hire, with the first payroll deduction occurring the first pay period following the above date. A newly hired employee who does not elect to participate within their initial eligibility period will not again be eligible until the next subsequent open enrollment period under the Plan.

**11. What is the maximum amount of the reduction in my pay for?**

- a. Qualifying medical expenses?
  - > Maximum amounts are: \$3,000.00
- b. Qualifying dependent care expenses?
  - > Maximum of \$5,000 annually, or the income of the lesser earning spouse (whichever is less).

**12. How do I estimate my expenses?**

To determine accurately what expenses you will want to pay through the plan, estimate any out-of-pocket medical or dependent care expenditures you will have for the next year. But take your time, because more money spent through the spending account means more tax savings for you. A reimbursement plan worksheet is provided for your use for planning your flex dollars.

**13. What kind of expenses can I submit for reimbursement?**

- A. Medical - You may now be reimbursed for expenses incurred any time during the calendar year even though sufficient funds have not been accumulated in your account. Consult the list of covered expenses (as dictated by IRS Section 125) that is included in the enrollment package. Expenses for the purchase of medical, dental, or vision insurance plans are not reimbursable.

- B. Dependent Care - Day care, babysitting and nursery school expenses are eligible if incurred while you and your spouse are working and/or attending school full-time. You must be able to provide either an Employer Taxpayer I.D. number or a Social Security number for the dependent care provider.

**14. Do Health Insurance Premiums, which are paid by self or spouse, qualify as an expense?**

No, premium payments of any type are not eligible for reimbursement under either Healthcare or Dependent Care Account.

**15. How is Orthodontia expenses handled?**

Upon submitting a claim request to your Flexible Spending Account for an orthodontia expense, the employee must submit an itemized written claim that includes the following information:

1. Initial date appliances were placed
2. Total charge
3. Initial down payment
4. Length of treatment
5. Amount and number of monthly payments to be made
6. Amount to be paid by Dental Plan

The expenses must be incurred during the period of coverage (plan year) to be eligible for reimbursement. These substantiation requirements prevent the advance reimbursement of future or projected expenses.

Since treatment for orthodontia is "on-going", meaning that treatment is received over a period of time, reimbursements through the Flex Plan will be made in the same "on-going" manner. Under no circumstances will reimbursement be made for the total out-of-pocket expense at the onset of treatment.

**16. Can I use money from my Dependent Care Account to pay Medical expenses?**

No. Once you elect the amount to defer into each account, it must remain in that account.

**17. If I defer money to a Dependent Care Account, can I still use the child Care Credit on my income tax return?**

No. There are strict rules regarding dependent care. You should check with a tax consultant.

**18. If I have any money in my Healthcare or Dependent Care Reimbursement Account at the end of the year, can I use it the following year?**

No. Any funds remaining in either reimbursement account at the end of the Plan Year (December 31) and not paid out by March 1st of the following year are forfeited (Use-It-Or-Lose-It Rule). The expenses must have been incurred by December 31 of the Plan Year. There is a grace period of 90 days for filing your claim.

**19. What happens if my claim for reimbursement is more than my account balance?**

- a. Medical - If your claim amount exceeds your account balance (what has been withheld to date) Independent Health Corporation is required to reimburse you the full claim amount regardless of how much money is in your medical account (Full Reimbursement Rule). However, you can only be reimbursed up to the amount of your annualized deferment.
- b. Dependent Care - Independent Health Corporation will reimburse you up to the amount in your account and will pend the remainder to be paid when more money is deposited into your account.

**20. Can tax savings give me a margin of error?**

The tax savings you receive on each dollar used in the plan gives you a cushion on your estimate for expenses. For example, if you contribute \$1,000 to the spending accounts and have a 25% tax bracket, \$250 represents tax savings that normally would have been paid to Uncle Sam. So if you over estimate your expenses by less than 25%, you come out ahead. But remember, the closer you come to your estimate, the more your savings will be.

**21. Explain the Use-It-Or-Lose-It IRS rule**

According to the Internal Revenue Code stipulation commonly known as the "Use-It-Or-Lose-It Rule," employees who overestimate the amount they think they will spend on a certain reimbursement benefit in a given year cannot:

- \* Keep the unused money as cash;
- \* Save the unused money for similar expenses in the following year;
- \* Use the unspent money for any expense other than the type of expense designated for it. That is, money designated for dependent care expenses must be spent on dependent care; money earmarked for uninsured medical expenses must go to medical expenses.

If an employee does not use the money for predicted expenses during the Plan Year, he or she loses access to it. Independent Health Corporation sends employees a reminder notice before the end of the Plan Year to let them know how much money remains in their accounts. If, however, an employee undergoes a change in family status, (marriage, birth, death, divorce, or change in job), he may change his reduction amount.

**22. Explain the Full Reimbursement IRS Rule.**

According to proposed Internal Revenue Regulations effective for Plan year 1990 and thereafter, the Employer must fully reimburse the employee for expenses he submits to his Healthcare Reimbursement Account (this rule does not apply to the Dependent Care Account) up to the maximum annual amount the employee sets aside.

Thus, if an employee sets aside \$50 per month or \$600 annually in his Healthcare Account, he is entitled to receive the full amount at anytime during the Plan Year. Of course once he has used the funds up to the maximum, he cannot collect any additional. So in the case of \$600 annually, the employee could submit bills totaling \$600 -- in January and receive reimbursement in that amount. He would continue to have the \$50 payroll reduction so that by year end his reduction would equal the \$600 -- reimbursement.

**23. How often can I submit for reimbursement?**

Send your requests for reimbursement forms directly to Independent Health Corporation as often as you incur expenses. Reimbursement checks will be distributed once a month. Reimbursement checks are made payable only to you, the participant of the Flexible Spending Account plan.

**24. How do I file for reimbursement?**

Claim forms are available from the Human Resource Department. An original invoice and/or Explanation of Benefits are required. A canceled check is not appropriate documentation.

Submit the appropriate claim forms and mail directly to:

Independent Health Corporation  
FSA Administration  
511 Farber Lakes Drive  
Buffalo, NY 14221  
Local Calls: (716) 504-1468 or Long Distance: 1-800-258-3348

**25. Who should I call with additional questions?**

Contact the Flexible Spending Account Representatives at Independent Health Corporation at (716) 504-1468 or 1-800-258-3348. You will be connected to an automated operator. If you DO NOT have a touch-tone phone, remain on the line for further assistance.

**Business Hours: Monday through Friday 8:00 a.m. to 5:00 p.m. EST  
(716) 504-1468 or (800) 258-3348**

## Eligible Healthcare Reimbursement (HRA) Expenses

The following list identifies some of the more common medical and other health related expenses that are considered deductible by the Internal Revenue Service. Any of these expenses are eligible for reimbursement through a Healthcare Reimbursement Account as long as the employee's insurance plan has not already reimbursed him and as long as the Internal Revenue Service continues to allow the deduction in subsequent years:

Abortion, legal	Neurologist
Acupuncture	Nursing Services
Alcoholism/Drug Treatment	Ophthalmologist
Ambulance	Orthodontia Expenses
Anesthesiologist	Osteopath
Artificial Limb	Oxygen
Birth Control Pills	Pediatrician
Braille Books and Magazines	Physical Examinations
Braces	Pre-Existing Conditions
Child Birthing Classes	Prescription Drugs
Chiropractor	Psychiatric Care
Clinic	Psychoanalysis
Coinsurance Amounts	Psychologist
Contact Lenses	Radial Keratotomy
Contact Lenses Supplies	Reasonable and Customary Charges (amounts in excess of)
Crutches	Schools, special
Deductible/Co-Insurance	Smoking Cessation Program (only medically necessary)
Dental Treatment	Sterilization
Dermatologist	Support or corrective devices (such as orthopedic shoes)
Eye Examination	Surgeon
Eyeglasses	Transplants
(Prescription Sunglasses)	Transportation
Fertility Treatment	Vaccines
Gynecologist	Vasectomy
Guide Dog	Vision Care
Hearing Aids	Wheelchair
Hospitalization	X-ray Fees
Insulin	
Laboratory Fees	
Mentally Retarded and Special Home for mentally retarded	

### Attention

The IRS has just announced that over-the-counter drugs can be reimbursed by health FSA's (and HRA's). The IRS ruling concludes that a health FSA is authorized to reimburse an employee for purchases of an antacid, allergy medicine, a pain reliever and cold medicine from a pharmacy, none of which were purchased with a physician's prescription. These medications must be used to alleviate a medical condition. Employees seeking reimbursement for nonprescription drugs must present a receipt indicating the date of purchase, the amount and the name of the product.

## Deductible Dependent Care (DCA) Expenses

The following list identifies some of the more common dependent care expenses that are considered deductible by the Internal Revenue Service. Any of these expenses are eligible for reimbursement through a Reimbursement Account with the stipulation that the employee is working at the time the expenses are incurred and as long as the Internal Revenue Service continues to allow the deduction in subsequent years:

Baby sitting (only while employee is at work or attending school full-time)

After school programs - YMCA, recreational programs, latch-key program

Pre-school and nursery school program

Summer day camp - not overnight

Elderly care

\* **You must be able to provide either an Employer Tax ID number or a Social Security number for the dependent care provider.**

## Non-Covered Expenses

The following list identifies some of the more common medical and other health related expenses that are not considered deductible by the Internal Revenue Service.

Cosmetic Surgery	You cannot include the amount you pay for unnecessary cosmetic surgery. This applies to any procedure that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease. Procedures such as face-lifts, hair transplants, hair removal and liposuctions are not deductible.
Dental Expenses	Teeth whitening or bleaching.
Funeral Expenses	Any expenses as payment towards a funeral.
Health Club Dues	Health club dues, YMCA dues, or amount paid for steam baths for your general health or to receive physical or mental discomfort not related to a particular medical condition.
Household Help	Cost of household help even if such help is recommended by a doctor.
Illegal Operations	Expenses for illegal operations or treatments whether rendered by a licensed and treatments or unlicensed practitioner.
Life Insurance Premiums	Excluded.
Lifetime care	Current payments for medical care (including medical insurance) to be payment provided substantially beyond the end of the year.
Lodging	The cost of lodging while away from home for medical treatment if you do not receive the treatment from a doctor in a licensed hospital or medical care facility, or if the lodging is not primarily for or essential to the medical care you are receiving.
Meals	The costs for meals that are not part of inpatient care.
Nursing Services	Charges for personal and household services.
Personal Use Items	Expenses for an item ordinarily used for personal, living, or family purposes unless it is used primarily to prevent or alleviate a physical or mental defect or illness.
Trips/Vacations	Trips or vacations taken merely for a change in environment, improvement of morale, or general improvement of health, even if you make the trip on the advice of a doctor.
Weight Loss	<b>The cost of a weight loss program for <u>general health</u> is not reimbursable even if a doctor prescribes the program.</b> However, the cost of a weight loss program may be reimbursed in two instances. First, if attendance at a weight loss program is prescribed by a doctor to treat a specific illness (e.g., heart disease), then the expense is reimbursable. Second, obesity is now medically recognized by the IRS as a disease in its own right, and weight loss programs to treat obesity are reimbursable expenses.

# Reimbursement Plan Worksheet

You may find it helpful to review your out-of-pocket expenses for the past year by using g this worksheet. You should take into consideration any known factors that could have an impact on these amounts before year-end. You cannot begin, suspend, increase or decrease your contribution during the plan year unless your family status changes. Changes must be made within 31 days of the qualifying event.

## I. Health Care Reimbursement Account

### Estimated expenses not covered by your medical and dental plans:

➤	Medical expenses such as but not limited to:	
*	Deductibles and co-insurance	\$ _____
*	Routine physical exams, including Gynecological exams	\$ _____
*	Well baby care	\$ _____
*	Hearing exams	\$ _____
*	Hearing aids	\$ _____
*	Other eligible expenses*	\$ _____
➤	Dental expenses, such as:	
*	Restorative services such as gold fillings, crowns or fixed bridge work	\$ _____
*	Treatment exceeding the Plan limits i.e. orthodontic, fixed bridge work	\$ _____
*	Routine exams, cleanings	\$ _____
➤	Vision care expenses, such as:	
*	Exams	\$ _____
*	Eyeglasses	\$ _____
*	Contact Lenses	\$ _____
	<b>TOTAL ANTICIPATED OUT-OF POCKET EXPENSES</b>	\$ _____

- Eligible expenses include any expenses considered deductible by the IRS for Federal Income tax purposes

# OVER-THE-COUNTER DRUGS

On September 3<sup>rd</sup> 2003, the Treasury Department and the IRS released a revenue ruling announcing over-the-counter (OTC) drugs may now be paid for with pre-tax dollars through the unreimbursed medical expense account component of Flexible Spending Accounts (FSA).

OTC drugs include many drugs that used to be prescription drugs, such as Claritin® and Advil®, as well as items like cough or cold medicine, pain relievers, allergy medications and antacids.

OTC items that are simply beneficial to the general health of an individual, such as vitamins, toiletries (such as toothpaste, mouthwash, etc), dietary and nutritional supplements and cosmetics (such as facial creams) **are not allowable**. You may find additional information on the OTC announcement at the IRS website located at: [www.IRS.gov/newsroom](http://www.IRS.gov/newsroom).

As with all other FSA expenses, you will need to save your receipts for these items and send them in when you submit your FSA claim form or when you receive a "Request for Additional Information" letter where you used your *PowerPay* debit card. The IRS requires proper substantiation for each item purchased to show that they are being used to "alleviate or treat personal injuries or sickness" for you and/or your dependents.

Remember, adequate substantiation for these claims must include the name of the drug or medicine, the date it was purchased, and the charge for the item. If the name of the drug is not listed on the receipt, you must write the name of the drug on your claim form. Here is a partial list of frequently used Eligible and Ineligible OTC Drugs:

## **Eligible Over-the-Counter Medical Expenses**

**Allergy Relief**, such as oral medications, nasal sprays and patches  
**Analgesics**, such as Fever and Pain reducers like Aspirin, Tylenol, and Ibuprofen  
**Antacids and Heartburn Relief**, such as Alka-Seltzer, Mylanta and Milk of Magnesia  
**Antibiotic** ointment  
**Anti-itch** and hydrocortisone creams  
**Arthritis** pain relieving creams  
**Athlete's Foot Treatment** such as nails and foot anti-fungal creams  
**Blood Pressure** monitor and related equipment  
**Cholesterol** test equipment  
**Cold Medicines**, such as tablets, syrups, drops, and lozenges  
**Diabetes**, such as glucose monitor and related equipment  
**Eye Care**, such as contacts, saline solution, and lubricant eye drops  
**Eye Patches**  
**Feminine Care** relating to treatment of vaginal infections  
**First Aid**, such as heat wraps, compresses, bandages, gauze dressing, adhesive pads, band aids and pain relieving creams  
**Incontinence Products**, such as Depends and Serenity pads  
**Joint Support Bandages and Hosiery**, such as knee supports and elbow supports  
**Laxatives**  
**Motion Sickness**, such as Dramamine, patches, bracelets  
**Shampoo Treatments** for lice, psoriasis  
**Smoking Cessation Relief**, such as patches, gum  
**Stomach & Digestive Relief**, such as Pepto-Bismol, Imodium, Colace, Lactaid  
**Tooth and Mouth Pain Relief**, such as Orajel, Anbesol  
**Urinary Pain Relief**  
**Wart Removal** medication

## **Ineligible Over-the-Counter Medical Expenses**

**Vitamins** (for the general health of an individual)  
**Toiletries**, such as toothpaste, mouthwash, etc.  
**Dietary and Nutritional Supplements**, such as shakes, bars etc.  
**Cosmetics**, including face creams, moisturizers

# VOLUNTARY FLEX CONTRIBUTIONS

Employee uses a pre-tax reduction for Healthcare and Dependent Expenses

	<b><u>Without Flex Plan</u></b>	<b><u>With Flex Plan</u></b>
Bi-Weekly Gross Income	\$1,000.00	\$1,000.00
Flex Spending Account		
\$50 Bi-weekly for Deductibles/Co-payments	-----	\$ 50.00
\$100 Bi-weekly for Dependent Care	-----	<u>\$ 100.00</u>
Adjusted Gross Income	\$1,000.00	\$ 850.00
Soc. Sec. Tax (7.65%)	\$ 76.50	\$ 65.00
Federal Income Tax (15.0%)	\$ 150.00	\$ 127.50
State Income Tax (2.50%)	<u>\$ 25.00</u>	<u>\$ 21.25</u>
Paycheck	\$ 748.50	\$ 636.25
Payment towards dental care w/after tax expenses	\$ 50.00	-----
Dependent Care expenses w/after tax dollars	<u>\$ 100.00</u>	-----
	\$ 598.50	\$ 636.25

Difference between paying for services with pre-tax dollars versus after tax dollars \$37.75 bi-weekly or \$981.50 per year.